WHAT PRICE WALL STREET?

FORREST DAVIS

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BY

FORREST DAVIS

WILLIAM GODWIN, Inc.

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FOR MY WIFE, TONY

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I—WHIPS FOR ROGUES

BY a healthy tradition reaching deep into the dark folk recollections of the race, the trader for profit is suspect.

Along the dusty, chaffering path leading backward from the New York Stock Exchange to the first caravan peddler who swapped, with a plainsman, jade for skins in far Mesopotamia, the trader immemorially has been regarded as a sly fellow, fraught with guile and never under any circumstances to be trusted in fixing his own profit. A rascally crew, by all accounts, for centuries jeered at, proscribed and preyed upon and, for a millenium and a half of the Christian era, in lively danger of hell's fire. The money vendors and hucksters who keep shop in Wall Street in this depressed year 1932 inherit the historic aversion to their guild.

Wall Street, moreover, is heir to another antipathy of natural man. The great banks which huddle in close order in the narrow highways of lower Manhattan represent that universally opprobrious character, the creditor. Under the terms of the standard economic theory, which places debt first, productivity second, all borrowers from the hog-raising farmer in Nebraska to the New England railroad, the South American government as well as the Ohio plow manufacturer, are in debt to Wall Street. Having arranged the loans, Wall Street is now the bailiff, the landlord's agent, the collector inveterately feared and hated by the debtor class.

No one can wonder then, least of all the unutterably knowing adepts who preside in the arcanum of high finance, that Wall Street, both as symbol and as the ascendant power in capitalistic enterprise, should in this unhappy year of Grace be blamed, excoriated and threatened. Historically, every collapse of our credit structure from 1792 onward has brought howling about the ears of Wall Street a motley parcel of indignant reformers. Egregious lay Jeremiahs, politicians bespeaking rural dislike of the creditor class and the sinful metropolis, and the highly articulate victims of incautious speculation—these have appeared, clamoring for punitive legislation, at the calamitous end of each New Era. Their utterances have built a legend which, if expressed visually, would resemble a grotesquely evil chromo with the Stock Exchange frowning in the background, a paunchy, diamond-studded, beetle-browed banker looming in one corner. In another corner a ruined gambler piteously shoots himself. The foreground is lively with antic Bears and sportive Bulls pitching gold coins at a crack and picking the pockets of an honest farmer and worthy merchant out for a stroll; the whole giddily festooned with ticker tape.

But in this aftermath of the cruellest of all the great panics, with informed, sympathetic economists baldly questioning the vitality and usefulness of Capitalism itself, Wall Street and the Stock Exchange, its most salient agencies, face a new enemy. A dry, matter of fact voice rises above the customary hubbub. It is the voice of the new civilizing force in business known roughly as science. The scientific attitude, more cold-blooded and merciless than the somewhat romantic austerities of business, is being brought to bear on finance.

The method which gives us technological research, so-called scientific management and which is striving idealistically for planned control of production and consumption, is being applied to the curiously haphazard, incredibly wasteful, psychologically malevolent and wholly illogical technique by which bankers and stock brokers in Wall Street ostensibly supply credit to the country's producers by exploiting man's childlike yen for easy money. The bluntly analytical approach—which means arriving at facts and valid assumptions by investigation instead of the old fashioned, rule-of-thumb methods of those highly impractical fellows the bankers—lays all the warrants through which Wall Street functions under question and already has raised strong doubts as to the truthfulness of the claims which spokesmen for the speculative order make in behalf of a "free" market in tokens representing the nation's aggregate wealth. To put it more simply, the newcomer in the chorus of Wall Street's detractors denies that the Stock Exchange, for example, serves society sufficiently well to compensate for the enormous toll it takes, through the lure of gambling, from the productive increase of the land. He believes that financing industries by means of speculation is archaic, scientifically unsound and, that, by putting the inventiveness, thrift and toil of the people at the hazard of stock gamblers, it becomes socially meretricious. He believes that in a skilfully-organized new era, big business would be able to manage its long term financing and attract new capital without recourse to a gambling device which at its worst is somewhat less admirable than a lottery. He disputes also the conventional argument that the Stock Exchange has

financed the railroads, the public utilities and the industries which are the marvel of a mechanized world.

Wall Street finds itself in 1932 the scapegoat, heavy-laden with everyone's economic sins. Legislative inquiries, burdensome taxation and the almost universally expressed belief that the bankers and the Stock Exchange actually provoked this major debacle afflict the traders for a profit in that fabulous community. It may be illuminating, therefore, to begin a study into Wall Street's historic rôle by examining sketchily the ancient distrust which latently surrounds the Wall Street trader.

The significant circumstance is not that the incipient Lord of the Christians purged the Temple at Jerusalem of merchants. What is revelatory, as related in the two Gospels recording the incident, is that the money-changers so hastily scampered before the thongs of the Reformer; and that the worshippers and other bystanders accepted the eviction so placidly and as a matter of course. True, the robed merchants who had set up tables to change silver coins into suitable offerings for the priests and to vend doves, bright for the altar sacrifice, were trafficking in somewhat incongruous precincts. But they seem to have been serving an economic purpose, and one surely not to the disadvantage of the Levites.

What is obvious, although seldom considered, is that Jesus proceeded there against a submerged class. They had no civic standing, hence their servile haste to quit the overturned tables, leaving behind scattered coins and capsized dove crates. Hence, too, their lack of effective resentment, so far as the record shows, at being pilloried as "thieves" in the heart and center of their racial life

by a wandering prophet. They, too, were traders for a profit.

Whips for rogues!

Through many weary centuries after the earliest traders—bold Arameans who drove camel trains across the Persian ranges to Cathay, Phoenicians incessantly plowing the eastern Mediterranean in frail galleys—initiated pacific exchange, the back of the merchant was no stranger to the lash. The marshals of medieval towns suggestively erected gibbets in the market-place when wandering fairs appeared. Whipping posts and stocks likewise were set up as ocular admonition to the chafferers and for discipline if need be. During three-quarters of the Christian era, the Church of Rome and devout temporal lords forbade the taking of interest on money let out, known interchangeably as usury, and the various corporal punishments of pre-prison times were sharply meted to many an ambitious "go-getter" in the Dark Ages. Relics of this antipathy to "renting" money may be seen in the usury statutes of American states.

Long usage in the pagan and Christian world made the lot of the trader, as opposed to the producer, a hard one and the incident at the Temple plainly testifies to all of a pious turn that man is endowed with no natural, no imprescribable, right to make a profit on his neighbor's endeavor. Whatever the seat of this prejudice in the tangled folkways of mankind, the history of human trading—a persistent and continuous effort from earliest times to exchange values without violence—demonstrates that man, until almost the beginning of the big business era, has levelled a skeptical, mistrustful eye on his neighbor who bought for a rise or sold for a fall whether in goods, or bills of credit, or national debt

stock or corporation shares. Incurably suspicious of the canny lad, the entrepeneur, the trust-builder, the stock market operator, *genus homo* reserves his prime honors even to this day for the swashbuckling knave who acquires by force a principality, a mistress or a night's lodging. The American, circa 1932, whether merchant, sophisticate, proletarian, or pacifist is very likely to admire the soldier, or the plain gangster, more than he does the huckster. The preference, while no doubt lamentable, must be rooted in the same primitive emotion which makes sinful humanity esteem bluntness above cunning. The preference explains the vogue for sports heroes. Almost any Englishman will jeer at the ennoblement of a brewer or a soap maker but it takes an Englishman of varied discrimination to view with genuine scorn the elevation of a soldier, a sailor or an adventurer to the peerage. In this country, where the cult of big business thrives best and trading bears high moral and social sanction, the death of a Pershing would turn out a bigger funeral than the demise of a Morgan or a Henry Ford.

Odd as it may at first strike the smart, university-bred, socially acceptable young man in Wall Street, he is in direct line from the proscribed rascals who in ancient times dined "below the salt"; the contriving chaps with a gift for reckoning, comparison and dickering who, under the frown of lords, bishops, squires and holy clerks, introduced and established the ways of peaceable exchange. The young man in the Street is a remote product, at long last, of one of the most pregnant divisions of labor in the old time. The earliest traders were likely to be robbers as well. They bartered skins, oils, flax, olives, figs, gold and precious stones only

when they could not seize or levy tribute. As the functions of robber and merchant gradually were separated the more timid class suffered at the hands of the bolder. Organized robbery flourished for centuries under the pretext of war. With the Crusades and the Age of Chivalry, new justifications were supplied for taking what the powerful and energetic upper classes required. Meanwhile, the plundering proclivities of the merchants promptly were suppressed. Indeed, the merchants lacked means to despoil. They were invariably disarmed by their rulers. Throughout feudal times, a merchant, no matter how rich, though he be a Fugger, could not bear even decorative side arms without a patent from his liege lord.

The discrimination naturally proceeded along lines of prestige. Merchants and money lenders were forbidden by law to ape the garb of their betters. Such a law existed in the latter days of the Roman Republic. The ascendant class of money dealers and merchants, the Argentarii and Equites, chivvied about by bands of Equestrians as they traded at the Forum Civitas, were confined to severe raiment. Indeed, the social proscriptions against traders lasted almost into the modern age, singular as the thought may seem to persons who conceive the present lofty position of traders in America as of long standing. The reception of business men into what is known as good society is a relatively modern phenomenon and the long ostracism may, as Mr. Lawrence Dennis suggests in his book, *Is Capitalism Doomed?* have some relation to the uncertain mores of the trader even at this date. "Up to the commercial revolution, or roughly speaking, the Seventeenth Century, trade was not important. Up to still more recently

it was not considered respectable. The mental attitudes formed in the days when bankers and tradesmen felt the sting of social ostracism have, however, persisted. They still influence modern thinking and behavior. Centuries of the ghetto have given to modern business an inherited inferiority complex." [1]

The history of trading, since the element of money gain diversified primeval exchange, has been, as we have seen, a difficult warfare between a pushing class of outsiders which sought profits peacefully and an obstinate, entrenched aristocracy which scorned gain, anathematized it with the churchly arm, or, following certain Athenian philosophers, deplored money greed on the ground that, once legitimatized, it would get out of hand, demoralize the individual and work harm to society.

Prehistoric trade, such as proceeded in antique Egypt and is represented by battered figurines on unearthed temple pylons showing potters, weavers, fishermen, etc., exchanging wares, earned no moral stigma. Carried on in market-places, it was the simplest form of the transfer of necessities. Speculation was not commonly, or necessarily, involved. That sort of market endures to this day—the village produce market where farmers come periodically to exchange native edibles—butter, eggs, milk, poultry, sausages, vegetables—for the town dwellers' currency.

The social peril seen by heathen philosophers and the sin detected by the Fathers of the Church did not arise from such traffic as this. An Athenian, a Roman, a Palestinian, a holy saint, a baron, understood the rude transaction wherein a consumer purchased something

[1] "Is Capitalism Doomed?" by Lawrence Dennis. New York.

tangible and visible from the producer. The warrior, the priest, the landowner only became alarmed when the product passed through several hands. It may have been that the professionalism of the trader, his necessity of making a money profit, was what disturbed the aristocracy.

Trading in money, in debts, thrived somewhat during the classical period. The ruins of Pompeii disclose a forum dedicated to the money lender. In Rome, after money currency became commonplace, traffic in credit developed more or less along organized lines. Juvenal adverted to the pains and penalties of this business in the Ninth Satire. "Why," he asks, "do you look as woebegone as Creperius Pollio when he goes around offering a triple rate of interest and can find no fool to trust him?" But with the decline of the Empire and the rise of the Church, dealing in money, and, indeed, speculative trading in goods, went out of fashion. The Fathers verily saw no good in merchandizing. St. John Chrysostom, one of the harshest, laid it down that "the merchant can seldom or never please God," that "of the merchant's substance nothing but sin remains," that "merchants ought to be excommunicated." St. Augustine plainly held that trafficking was odious. The Vicegerents at Rome were no less solemn about it. Gregory VII held that "the merchant can perform no true penance unless he renounces the traffic and restores the ill-gotten goods." Gregory the Great held that scarcely any traffic could be "carried on without a sin."

At the Reformation, John Calvin took a position more sympathetic to the trader. Did gratitude prevail in this thoughtless world, statues would be erected in all market-places and stock exchanges to Calvin in

recognition of his having made it conscientiously possible to be both a profit-taker and a Christian. Calvin was French and logical. He wrote: "What reason is there why the income from business should not be larger than from land-owning? Whence do the merchant's profits come except from his own diligence and industry?" His outspoken Germanic rival, Martin Luther, sustained the old Roman doctrine. Luther delivered himself picturesquely. He said: "Therefore is there on earth no greater enemy of man, after the Devil than a gripe-money and usurer, for he wants to be God over all men. Turks, soldiers, and tyrants are bad men, yet must they let the people live, and confess that they are bad, and enemies, and do, nay, must, now and then show pity to some. But a usurer, money-glutton, such a one would have the whole world perish of hunger and thirst, misery and want, so far as in him lies, so that he may have all to himself, and every one may receive from him as from a God, and be his serf forever. To wear fine cloaks, golden chains, rings, to wipe his mouth, to be deemed and taken for a worthy, pious man. . . . Usury is a great huge monster, like a werewolf, who lays waste all, more than any Cacus, Geryon, or Antus."

The lot of the mercantile man improved only laggingly through the Dark Ages. The man with money was welcome within the moat only when he brought much gold and easy terms. But as the feudal wars depleted the countryside in what is now France, Spain, Germany, the Lowlands, the Italian peninsula and England, rulers had to rely more and more on the trading class for money to maintain their armed brawlers. And the enterprising merchants of the great cities of Italy,

who captured the trade with the East in the latter part of the Dark Ages, took advantage of their lords' necessities and their own great riches and presently, and precariously, were able to hold their own measurably with the land-owning aristocracy. The Lombards pushed out from their lush plain throughout western Europe and taught methods of commerce, crude credit technics and a formula for rising in the world to the merchants, notably of Amsterdam and London.

These Lombards were durable, patient and wise. They were matched, indeed, in western Europe only by the Jews, who had profited by the Church's long ban on money-lending and were placed in an extremely fortunate position, so far as wealth and adaptability were concerned, by the opening of the new commercial era induced by the Reformation and the middle class revolt. The celebrated Fugger family, once lowly weavers, the first dynastic trading clan in northern Europe, were rising with the Hanseatic League. That League itself, which at various times numbered ninety-four ports and tributary cities, established factories, or warehouses as they now are called, throughout the Baltic and the North Sea regions. Because of their usefulness and because also of their diplomatic regard for the proprieties in the way of bribery, the merchants of the League made fair accommodation with the ruling classes. It was the sight of these thriving Germanic factories in London and their busy traffic coming and going on the Thames which awoke the first flutterings of ambition to trade abroad among English merchants. So much for the seacoast towns and their merchants.

In the interior, trading went on primitively. Even so late as the Sixteenth Century, much of the commerce

carried on within the Holy Roman Empire proceeded through the rude instrumentality of itinerant fairs. The fair moved from place to place on a circuit very much as a circus or a street carnival does in this country and in this day. Astonishingly few chronicles remain to describe those pictorial wandering bazaars. As a matter of fact, whatever of glamour or spectacle there may have been in the growth of trading has found few literary celebrants. Poets seldom hymned the caravans that moved ceaselessly across the face of western Asia, pouring the gold and silver of the west into the treasure chests of Mogul princes in exchange for myrrh and frankincense and silks and spices. No Homer traveled on a Phoenician galley. Troubadours followed the fairs but they sang of lords and ladies, of wars, intrigue, and virtue well avenged. We have voluminous reports of religious manifestations during those middle centuries, of saints and pious ardor, of Councils, of pilgrimages, of fanatical uprisings; old libraries are crowded with stuffy manuscripts describing deeds of high emprise conducted by valiant knights, but we know very little about how the physical needs of man were satisfied in trade.

We may reconstruct, however, from unrelated sources, a reasonably graphic picture of a medieval fair. We must suppose that we stand at dawn within a walled town. A ribald trumpet fanfare arises without the wall. A gate is swung open. Outside, a long caravan stretches back along a narrow road. The peripatetic fair-vendors and usurers, mountebanks and crystal gazers, cutpurses, harlots and beggars—has come to cajole, amuse, gratify and plague the townspeople for its season. As the gate opens a fat abbot, astride a tall and shiny

mule, rides out towards his holy seat after a night of good cheer in the town. Head dropped on breast, eyes closed, the prelate affects not to notice the train of varnished wagons, goods carts, monkeys-on-a-stick and performing bears. A pestilential tribe, his attitude plainly implies. Traffickers, and hence, outside the Grace of God. Disreputable wights in the caravan slyly mouth asides with respect to the cleric's paunch, his rich cassock, his other-worldly contempt as the drivers make way for the mule and the abbot's armed train.

The procession moves sleepily toward the market-place within. There the merchants pitch tents along neat lanes, goldsmiths here, cordwainers there, dealers in cloth, spices and musk, each in his petty district. Money lenders, bearded Jews in rectangular black caps and costly gabardines, open offices beside their carriages. A Punch and Judy show appears, soothsayers unroll signs and charts, astrologers display the Zodiac, tumblers unlimber in hand-stands, bears are tethered and fed, the camp followers disperse throughout the town to spy its possibilities for profit.

The trumpeter utters a long flourish, a drum rolls, a bellman starts through the streets to cry the wonders of the fair. The market stirs with townspeople. At one end, a newly-erected gallows stares out over the turbulent scene. New stocks and a whipping post are established at conspicuous points. Presently, as the sounds of haggling rise confusedly, a thief is caught emptying a burgher's wallet. Guards in steel breast-plates hurry him to the whipping post. The town whipper is hailed, the cat-o'-nine-tails descends, the uproar of the market-place drowns the hypocritical cries of the thief. The neighboring Count and his squires,

a sumptuous band, saunter derisively through the welter.

Here were outcasts—"an objectionable congregation of noisy sharpers and rascals." [2]

The relationship of these wandering mongers, incysted in a hostile society not organized for profit, displays in vivid epitome the condition of the speculator, the buyer-for-a-rise throughout three-quarters of the Christian era.

It was only when Europe—responding to the stimulation of the Renaissance, the unconventionalizing impulses of the Reformation and the grand stir of discovery in the New World—approached what we call modern times, that the trader commenced to get any sort of a foothold in the social scheme. Once obtained, however, he furthered his advantage and the whole amazing complexus of nationalism and democracy was eventually shaped to his ends.

So now, in the year 1932 and amidst the despair which besets the most splendid civilization ever built by traders, we find the circle squared. Traders for profit again draw the age-old strictures of the race. Society meditates punishments, politicians plan proscriptions, the stocks and gibbets of public opinion again are established in the market-place.

Whips for rogues, indeed! But in our enlightened and humane civilization, to the enlightenment and humanitarianism of which the trader class may be said largely to have contributed, the lash will be merely figurative and no backs will be flayed in any modern temple.

[2] "The Work of the Stock Exchange" by J. Edward Meeker, N. Y.

II—TULIPS AND WAR DEBTS

AMID the liberating airs of the Seventeenth Century, and in the land and lifetime of Grotius and Spinoza, mankind discovered a gorgeously intoxicating game—gambling *with* commodities.

Here was a game capable of whipping up the cupidity of whole populations; a game which, with merely a substitution of counters, enlisted the bulk of the propertied class in the United States of America so late as the thirtieth year of the Twentieth Century. Hitherto, the chancy fellow had wagered on cock mains, the outcome of knightly tourneys, the turn of a die or a playing card. Traders, for their part, had from the most ancient time speculated *in* commodities, which is to say, they had for mercantile purposes bought more than presently was needed in prospect of a rising price; they had backed voyages and caravan hauls, they had likewise sold precipitately to anticipate a declining price. In short, merchants had bet on their foresight.

But here, in the warlike, bustling, look-alive Netherlands of the year 1634, we perceive, for the first time, a wedding of the two faculties, gambling and speculating, and on a national scale.

The chubby but alert Dutch burgher of the day, trotting along the cobbled quays of Amsterdam and Rotterdam in a great lather over the price of tulips; darting in and out of alehouses where his countrymen, making supreme fools of themselves, were gambling in

hastily-instituted "colleges" over the artificially fluctuating prices of brown bulbs—scraggy little roots, resembling a winter-worn onion—by the "ace," basketful or the thousand, was indubitably the forerunner of the cozened North American who in the years 1926-29 took part in a similar, and less excusable, national delirium.

Old Amsterdam in 1634, mistress of the Seven Seas and the trade routes east and west, had recently planted an outpost at the mouth of a great river in the New World, fondly christening it New Amsterdam. Dutch Amsterdam, a medieval city, lying out sedately at the feet of uncommonly ugly steeples and along canals leading to the North Sea and power, neglected, mulcted and misruled, New Amsterdam for a generation, or until the British effected a good-tempered conquest. But old Amsterdam's services to the infant community did not cease then. Indeed, we see across three centuries that old Amsterdam unwittingly tutored the New York of the reign of Coolidge in the sanguine and ruddy ways of a New Era.

Old Amsterdam's New Era was based on sheer gambling in the decorative tulip. New York's New Era devolved on gambling equally as sheer, in paper counters representing the right to a speculative profit or loss according to Stock Exchange fluctuations. In the pious hope that the parallel may be instructive, we shall take a look at the nature, extent and appalling consequences of the craze known today, even in the dictionaries, as Tulipomania.

Once navigators had allayed their fear of the Northern Ocean as the resort of monsters and horrid enchantments, North America lay open to the Old World and the mercantile glory that was Genoa's passed from the

Mediterranean through the portals of Hercules, northerly to the Low Countries. That shift in horizons, coupled with Holland's success in breaking the iron grip of Spain, thrust Amsterdam, a staid, provincial city, into the first rank of world emporia. Her merchantmen, under charter of the India Companies, first the East, then the West, voyaged to the South Seas for sugar, spices, coffee—dominion. They fared westerly and established a "factory" at the foot of the Hudson in a starveling settlement buried in deep woods at the tip of the island of the Manna-Hattoes. They challenged Iberian power in South America, set up trading posts in Brazil, looted silver-laden galleons. Amsterdam's wealth accrued suddenly, within a generation. There was exhilarating novelty in suddenly becoming the foremost trading city in the known world. Excesses promptly developed, including a yen for easy money. As each snub-nosed merchantman poured the rubies of the East, the beaver and gold of the West into Amsterdam, the avarice of the commonwealth waxed fatter. The appetites of the High Mightinesses of the India companies were especially whetted.

In 1609, a bank of issue was established. Within a few years, on an uncouth, open-air bourse, eminent Mynheers were trading solemnly in shares of the East India Company. A rudimentary mania for gambling swept the wealthy. Bears invented a technic for depressing the shares; values tumbled, the solvency of the East India Company itself was affected and, upon petition, the Stadtholder and the Deliberative Council at The Hague intervened to restore values in the oriental trading trust. An ordinance was effected, the first in history, forbidding short-selling.

The virus of gambling had entered the lymphatic veins of the Dutch. The splendid Mynheers, shod in Cordovan leather, gold-chained and pursy, had used India Company shares as counters; in 1634 the saboted middle classes were using tulips.

And presently all Holland was embarked on a money madness, a frenzy for getting rich without work. Abruptly, no one quite knew where, arose an unusual demand for tulip bulbs. The times were piping; the lovely flowers, commonplace in every man's garden now, had the element of novelty. They had been brought into Holland from Turkey as lately as 1560. Naturally, as prosperity waxed, more Hollanders wished to beautify their estates and dooryards. With the expansion of commerce, Londoners, Parisians, dour barons of the Baltic, and German town-dwellers, became familiar with and admired the flowers. The trade in bulbs expanded abnormally but it also was stimulated by manipulation, and in 1634 prices pyramided, buyers of all classes took a hand—buying, not the bulbs, but a gambling right to share the advantages of higher prices. Clever fellows discovered you could count on "future" bulbs, the excrescences forming on the main root which later could be detached and sold. The market now could run all year around. "Colleges," rough forerunners of today's commodity exchanges, were established in taverns. In these rackety, bickering congregations trading practices swiftly were standardized. One fashion of trading became known as "with the plates," closely anticipating the New York Stock Exchange system of individual bargains promptly announced, thus "making a market"; another was called "in the naught," a more primitive auctioneering method. "The speculators themselves

can be divided into two classes—those who sold bulbs they had in their possession and those who sold 'in the wind,' " being what we know today as "short sellers." "Towards the end of the boom the latter were rapidly exceeding the numbers of bona fide sellers." [1]

Here were, in minim, the elements of the Coolidge New Era. The land suddenly enriched, money plentiful, Amsterdam rising into unexpected eminence as the premier financial city, mercantile adventure abroad quickening the pulses of the home-keepers, and a ready vehicle for gambling at hand in the standardized tulip.

The sea-faring man breasting the North Sea outbound to Sumatra or the Platte, the Calvinist pastor in his tall pulpit, the small vendor, the Landgraf—all classes seduced by Tulipomania. "For a time, as usual, all won and no one lost. Poor persons became wealthy. High and low traded in flowers; sumptuous entertainments confirmed their bargains; notaries grew rich; and even the unimaginative Hollander fancied he saw a sure and certain prosperity before him. People of all professions turned their property into cash; houses and furniture were offered at ruinous prices; the idea spread throughout the country that the passion for tulips would last forever; and when it was known that foreigners were seized with the fever, it was believed that the wealth of the world would concentrate on the shores of the Zuyder Zee, and that poverty would become a tradition in Holland. . . . But the panic came at last. Confidence vanished; contracts were void; defaulters were announced in every town in Holland, dreams of wealth were dissipated and they who, a week before, rejoiced

[1] "The Tulip Mania in Holland" by N. W. Posthumus, from the *Journal of Economic and Business History.* London, May, 1929.

in the possession of a few tulips which would have realized a princely fortune, looked sad and stupefied on the miserable bulbs, valueless in themselves and unsalable at any price. To parry the blow, the tulip merchants held public meetings, and made pompous speeches, in which they proved that their goods were worth as much as ever, and that a panic was absurd and unjust. The speeches produced great applause but the bulbs continued valueless. . . . Many years passed before the country recovered from the shock, or commerce revived from the depression which followed the Tulipomania; and which, not confined exclusively to Holland, visited London and Paris, and gave a fictitious importance to the tulip in the two greatest capitals of the world." [2]

At the height of the hysteria a root actually was bartered for goods valued at 2,500 florins (the florin being worth about forty cents) twelve acres of land were paid for one "ace," an oddly tinted species customarily fetched 2,000 florins, and one quite rare root brought a new carriage, two grey horses and a complete harness.

The parallels between the first epidemic of gambling with commodities and the New York Stock Exchange prosperity crusade of 1926-29 should not be pressed too far. Yet the circumstances run side by side a long distance. Transpose "Radio" or "Montgomery Ward" for "flowers"; illimitable production of split shares and "rights" for the "passion for tulips" which "would last forever"; a promise of "a chicken in every pot" for the hope "that poverty would become a tradition in Holland"; and compare the frightened statements from White House and Wall Street in the autumn of 1929

[5] "Chronicles and Characters of the Stock Exchange" by John Francis. London, 1850.

assuring us that the country is "fundamentally sound," with "the pompous speeches" of the tulip merchants designed to prove the panic "absurd and unjust."

The forerunning Dutch New Era inspired no immediate imitator. Indeed, it was not, so slowly do man's aptitudes sharpen, until the end of the high-spirited and humane Seventeenth Century that quick-witted, greedy fellows in London, many of them Jews, who had gone over in the train of the Dutch William III and his Stuart consort Mary, devised a way of gambling in an organized fashion with shares of the British East Indies trading trust and certificates representing bits of the new-born national debt.

Speculative trading in goods, as has been indicated, is as old as the hills. When the prehistoric trader, whether in mythological Crete, whence Jason sailed in quest of the Golden Fleece, or along the Nile, first learned to accumulate and dispose profitably of a surplus, he was a speculator. The Scriptural Joseph speculated, in the true meaning of the term, when he stored away the yield of the seven fat years against the seven lean ones. "In a sense the 'propensity to speculate' must have preceded the 'propensity to barter'; for as soon as a man produced more of any commodity than he could himself consume, he was catering in advance for the wants of others and so assuming the risks of providing for an unknown and uncertain demand. When the time came for a 'swap,' he might find nobody who wanted his superfluous supply of arrowheads or deerskins; but, on the other hand, these articles might be in great demand and exchange for more meat or fish than ever before. Any 'carrying of stocks' is essentially speculative and hazardous. Nor was the process of

making a corner unknown in early history. Thales of Miletus, in anticipation of an abundant olive harvest, made a fortune by buying up all the oil presses and letting them out on his own terms. Aristotle tells, too, of a Sicilian who cornered all the iron in the island and made a profit of 200 per cent on its sale. In Athens there were many speculators who lent on the security of ships and their cargoes, getting from 25 to 30 per cent if the voyage prospered, but losing their money if the ship foundered at sea." [3]

The speculative faculty, which quite legitimately enters into every kind and condition of business or industry, assuredly evolved a long while ago and the English R. H. Mottram, novelist and "City man," recently discerned evidences from excavations at Grimes Graves, Weeting, of a highly speculative flint mining industry in the Neolithic period. These primitives sank 400 pits and mined skilfully the hard, flaky stone from shafts sunk thirty feet deep. They stored the finished product, and evidences remain of a market-place at which travelers from afar came to buy. "In short, prehistoric man had already parted company with immediate necessity. He acquired commodities of uncertain future value. To him the bargain was imminent, the market, in embryo, a corollary. Thus, the speculative faculty was born." [4] That birth presumably took place 10,000 years ago.

But while speculation existed in the dawn of man, the word itself, curiously enough, did not apply to the anticipatory function for gain until quite modern times. Samuel Johnson, for example, in his Dictionary published in 1764, a generation after the notorious South Sea and

[3] "Wall Street and Lombard Street" by Francis W. Hirst. New York.
[4] "A History of Financial Speculation" by R. H. Mottram. Boston.

Mississippi bubbles had spread ruin under his own observation, and more than a century after Tulipomania beggared Holland, failed to include such a definition among the six which he gave for the word speculation. To the eminent lexicographer, speculation meant only: 1. Examination by the eye; view; 2. (An) examiner; (a) spy; 3. Mental view; intellectual examination; contemplation; 4. A train of thoughts formed by meditation; 5. Mental scheme not reduced to practice; 6. Power of sight (not in use).

The word only gradually broadened beyond its contemplative character and took on a meaning which describes commodity trading for a desired rise or fall in value. At an even later date the word was slightly put out of countenance by being used—as it still is, in common language describing stock market operations not designed for investment—to cover stock market deals which are essentially gambling.

It is possible to trace and assess the laggard rise to respectability of speculative operations by means of three definitions. In 1754 Dr. Johnson was unaware that trading for a rise or fall could be defined as speculation. He was, however, indignantly cognizant of the existence of a genus trader, whether speculator or gambler, or both, who dealt on the young and disreputable London Stock Exchange in shares of the national debt, or as we know them, in Government Bonds. A stock jobber was to him, "a low wretch who gets money by buying and selling shares in the funds." The garrulous Great Cham had heard of stocks. The twelfth and last definition under that heading read: "A fund established by the government, of which the value rises and falls by artifice or chance." One hundred and four

years later another English lexicographer, Samuel Maunder, describes speculation as: "The practice of buying articles of merchandise, or any purchasable commodity whatever, in expectation of a rise of price and of selling the same at a considerable advantage. In this it is distinguished from regular trade, in which the profit expected is the difference between the retail and wholesale price, or the difference in price in the place where the goods are purchased, and the place to which they are to be carried for market. Speculation on a large scale, upon the principle of monopolization, or that kind of speculation which consists in the purchase and sale of shares in public companies, as well as 'dabbling' in the stocks, and a variety of other hazardous transactions which might be named, are different species of gambling and are no less ruinous."

Next we have, in 1929, Mr. Mottram's succinct definition: "Dealing in fluctuating values," which covers the subject with the amplitude of a circus tent. The earlier definitions denoted iniquity. It was wrong to contrive sharp deals which yielded unearned profits. Speculation implied gambling and infinitely less honorable practices to Dr. Johnson and Mr. Maunder. But by 1929, the process had been purged of sin. It became somewhat of a civic virtue in the United States to speculate in the "market," that is, buy on margin with no idea of acquiring title, because so doing meant to help sustain that halcyon period of well-being known as the New Era. The whipped rogue of the preceding chapter and the "low wretch" of Dr. Johnson's category, had emerged as a worthy, blameless fellow.

But not without a swift class mutation. The merchant class, harassed, defrauded and defrauding, and

held in contempt until well after the Renaissance, in turn at the end of the Seventeenth Century, in London, was despising the new speculative, or gambling, class—the "money interest" as they collectively characterized themselves.

Commodity gambling, as we have seen, is so modern that it falls within the brief span of European settlement on this continent. Securities gambling is even more modern and has yet to justify itself. So far as we may recognize the origins of stock gambling, they appear to have been contemporaneous with and a pestiferous product of the reign of King William III, transplanted and usurping Hollander, at the end of the Seventeenth Century. The "stock jobbing" that provoked Dr. Johnson's snort of disapproval, took its rise in the national debt, that novel and perdurable implement of mortgaging the future, which, once invented, scarcely could be done away with. The National Debt of Dutch William was itself a means of paying old royal debts and providing the sinews of war with less immediate pain to the Kingdom.

William's predecessors, including James II, who fled before his approach carrying as excess baggage "Divine Right," had resorted to a variety of bull-dozing extortions to obtain funds with which to adorn their palaces, mistresses and favorites, and, incidentally, to victual and pay the navy which protected their aggrandized squirarchy. Sardonic King John imprisoned the mistresses of the bishops and the rich clergy, confident that the deprived holy clerks would promptly yield him revenues; Henry III despoiled merchants and made a huge borrowing, which Parliament righteously repudiated; Edward I practiced the deceit of a feigned voy-

age to the Holy Land and used the funds of the God-fearing for his purposes; Edward III imposed staggering fines, defying the Commons; Richard II pawned the crown jewels and peddled palace furniture; Edward IV the Handsome bussed rich widows for largesse; Henry VIII robbed the monasteries and enforced loans; Elizabeth set up monopolies and administered, in their stead, the bishops' temporalities; Charles II accepted gold from the French and borrowed from every man in the kingdom who sought a favor; and James II fell, in part, because he was put to similarly unimaginative and violent necessities.

The serenely thrifty William, profiting by these examples, being an alien Prince and hence on sufferance of the more powerful earls, and having also the counsel of a train of able mercantile negotiators, money-lenders and bill-shavers practiced in credit, fell into no such palpable errors. William, desperately in need of money to furnish his expeditions against "the grand" Louis XIV, first monarch in Europe, lent a ready ear to the Dutch financiers, many of them subtle Jews who had fled to the free haven of Holland from Spain, and to the Scot Paterson.

William of Orange founded the National Debt. William Paterson founded the Bank of England. From the beginning, both institutions thrived albeit scandalously. By indirection, William—first modern king of England—founded the London Stock Exchange; and by an attenuate parentage, the New York Stock Exchange. When funds ran low, during his pacification of Scotland and the re-conquest of Ireland which ended in the Battle of the Boyne, William also had recourse to that profitable expedient, a state lottery.

The National Debt had its beginning in 1692. Funds were divided into small and negotiable units. A market-place where these might easily be traded in was categorically indicated and so, within a year, a whole new breed of traders or stock jobbers had grown up within the Royal Exchange. Money-jugglers, who created no values, trafficked in no real wealth, but merely gambled on a rise or fall of these certificates of debt, infested the sedate halls where only goods merchants, bearded and circumspect, and money-lenders had dealt before. The term "moneyed interest" entered into the common speech in 1692.

The effect of the release of so many and such rich gambling counters, produced a situation in London somewhat similar to, although more circumscribed than, the Tulipomania in Holland. Millions of pounds sterling in public debt, loaned from the savings of lord, gentry and the newly prospering middle classes, were "on the market." Fluctuations, artificially procured, sent the quotations of these public stocks rapidly up and down. The "inside" stock jobbers reaped fortunes solely by using their wits and a little capital.

Sudden wealth overwhelmed middle-class London.

> "The moneyed interest, intoxicated by the possession of wealth which their wildest dreams had never imagined, and incensed by the cold contempt with which the landed interest treated them, endeavored to rival the latter in that magnificence which was one characteristic of the landed families. Their carriages were radiant with gold; their persons were radiant with gems; they married the poorer branches of the nobility; they eagerly purchased the princely mansions of the old aristocracy. The brush of Sir Godfrey Kneller, and

> the chisel of Caius Cibber, were employed in perpetuating their features . . . and the money gained by the father was spent by the son in acquiring a distinction at the expense of decency. They were seized upon by the satirist and the dramatist as a new object of ridicule; and under various forms they have become a stage property. The term which they had chosen to distinguish them became a word of contempt; and the moneyed class was at once the envy and the laugh of the town. Nor was it until that interest became a great and most important one, that the term assumed its right meaning, or that the moneyed contended with the landed interest on a more than equal footing. In time, however, the moneyed became a landed interest, and vied in taste as well as magnificence with the proudest of England's old nobility." [5]

Sustained on a stable government credit, and stimulated by a flourishing, newly-rich class of luxury consumers, English commerce boomed. Acquisitive brokers, on the as yet unorganized stock market, saw profits also in manipulating the shares of the East India corporation. By 1695 the "low wretches" who traded clamorously in funds and "East India" under the cupola of the Royal Exchange, became too noisy for the gravely deprecatory merchants, who passed resolutions under which the brokers remained restive until 1698. Then they repaired to a narrow, filth-littered thoroughfare known then and now as 'Change Alley. From thence, trading, stock jobbing, manipulation, bull sorties and bear raids provided daily stimulus to the financial square mile of London called "The City." And what a

[5] "Chronicles and Characters of the Stock Exchange" by John Francis. London, 1850.

devil's broth, what a bickering, fraudulent—and incessantly fascinating place this alley of golden gain and swift disaster became!

Knaves and sharpers walked here, whispering in low stalls and conniving beside the fire in Jonathan's Coffee House. False rumors of wars and peace, of shipwreck and foreign disaster circulated madly. "The kingdom of 'Change Alley and its adjacencies" furnished London with spendthrifts' gold and Hogarth with types to caricature.

The strongly rooted folk animosity toward trading for profit in general and now, specifically, the new metaphysics of credit, early came into play on "The Alley." In 1701, a contemporary writer said with some vehemence: "They can ruin men silently, undermine and impoverish, fiddle them out of their money, by the strange, unheard-of engines of interest, discount, transfers, tallies, debentures, shares, projects, and the devil and all of figures and hard names."

Branded a rascal from the start, the repute of the London stock broker bettered slowly. He moved into Jonathan's Coffee House, he hired quarters, he built his own sombre hall, he traded for more than one hundred years under license of the Lord Mayor as pawnbrokers do, and it was only in 1867, midway of the dear Queen's lush and happy reign, that the broker emerged into a sort of quasi-respectability. The peaceful '90s—Great Britain's golden moment—saw the stock broker, launched by the Dutch William, finally accepted as a somewhat sporty, and perhaps necessary, part of the financial community and the West End's gay sets. Edward VII saw to that. While still Prince of Wales, Edward, with his naval beard and sporting proclivities,

hob-nobbed with members of inordinately rich speculative families, such as the Rothschilds and the Sassoons, and his cachet elevated the guild. By the end of Victoria's reign also, the most scornful dukes and earls had been persuaded to lend ancient names to the directorates of banks, the "home" railways and foreign trading corporations. The stock market had taken its place among the respectable institutions of old England.

William of Orange is not credited with being first to fund a National Debt. What he did was to support the notion that a kingdom's indebtedness, being based upon its irreproachable honor and all the resources of its citizens, might well go on forever. The British Consols and the early French rentes bore no maturity date. However, as Macauley pointed out, the phlegmatic William did introduce "the practice of honestly paying" the royal reckonings. Venice had experimented with a national debt in the days of her ascendancy, but the surety was the credit of the Doge. And the funds matured at short terms. Parenthetically, the earliest bank in anything approaching the modern sense and as distinguished from goldsmith, turned pawnbroker, was set up in Venice as the Chamber of Loans to supervise the state borrowings. Holders of the national debt bonds composed the bank and regulated the Republic's currency. Florence also floated a national loan, as did Holland, where the Spanish Jew, driven out by the Inquisition, brought his adult talent for contriving implements of credit to the Lowlands. But the English National Debt was the first to be broadly based on the whole productive power of the nation and to anticipate fearlessly the future. All modern national debts follow the model created by the Prince of Orange and Paterson of the Bank of England.

However, throughout most of the Eighteenth Century, the Exchequers of England and France were troubled by schemes to liquidate the national debts. Oddly enough, it was the traditional antipathy to lending money at interest which fathered those twin disasters, known as the Mississippi bubble in France and the South Sea bubble in England. Each was an attempt to use the wondrous and novel agencies of speculative credit to pay off at one stroke the burdens which had accumulated. Paris and London, coevally, were swept in 1720 by the most astonishing gambling lunacies which until that time—or until this, for that matter—had ever afflicted a population. Holland's Tulipomania seemed a harmless aberration by contrast. John Law, magnificent, casual Scottish adventurer, a genius at government finance, unmatched until the end of his century when Alexander Hamilton, an adventurer from the West Indies, established this Republic's credit; Law reached Paris at the age of twenty-three, having fled the penalty in London of a too successful duel. He found imperial France, under the minor Louis XV and governed by the avid Duke of Orleans as Regent, horribly in debt. Law, "gifted with the gab," personable and daring, arrived by a series of stratagems within a few years at what amounted to a Comptrollership of France.

In a series of rapid strokes he founded a bank on sound principles, gold poured into Paris, and merchant immigrants arrived by chaise from all parts of Europe to share in what appeared a stabilized prosperity. He obtained a charter for a ambitious Colonial scheme called the Compagnie des Indes Occidentales. The Indies Company acquired in succession the tobacco mo-

nopoly, the Senegal Company, and chartered rights to trade also in the East Indies, China and the Pacific. It managed the royal mint, farmed the taxes and received all of the kingdom's revenues. Law had by now merged the finances of France with his enormous interest. It was further proposed to consolidate the National Debt, expressed at that time in an inflated currency issue, with the West Indies Company.

At that point finance left off and gambling began. Through Law's miracles it seemed likely that the National Debt might be remitted. Within the year 52,000,000 livres in taxes, roughly $13,000,000, and 35,000,000 livres in duties, were abolished. Shares in the new corporation, due to the expansive atmosphere and the prospect of limitless wealth, catapulted. Paris had no market for trade in shares. But presently a flock of jabbering, sharp-witted lads had improvised the trade of stock jobber and were crowding the rue Quinquenpoix with noisy traffic. Soon the jobbers were routed from that thoroughfare and took refuge in the Place Vendome.

Shares rose to 10,000 livres, or about $2,500. Then in the midst of unbelievable excitement, the enemies of Law, the old bureaucracy which had profiteered by tax gathering and currency manipulation before the Scot arrived, reached the Regent's ear. They persuaded the Duke forcibly to deflate the market. Over Law's protests, an edict was issued reducing the value of the Law bank's notes by one-fifth at once and by one-twentieth each month until it reached their previous level. The edict was published on May 21, 1720. "In twenty-four hours the entire fabric fell to pieces. Law

had the bitter satisfaction of 'I told you so!' He had little else."[6]

Thus, the Mississippi bubble.

Contemporaneously, in England, Sir John Blunt fathered a similar project to blot out the National Debt with the fancifully anticipated profits of the South Sea Company's monopoly—which included the undisputed right, seized from the Portuguese, to transport African slaves to the American colonies. Blunt's scheme had the approval of George I and the Bank of England. The National Debt, £16,000,000 in 1701, had grown to £50,000,000 by 1714. Already the Exchequer had borrowed to pay current bills from the South Sea Company. On January 22, 1720, the South Sea Company offered in the Commons to exchange its stock for Exchequer notes, greatly depreciated, asking only further extension of its trading monopolies. The details of the transaction between the Government and the Company need not detain us. Falling in a sentimentally acquisitive era, and appealing to a people whose imaginations had only recently been seduced by "Robinson Crusoe," the project caught on and brought England's most distracting speculative period. "As the scheme did not at first prove successful, rumors were spread that Gibraltar and Port Mahon would be exchanged for Peru. The stock soon rose to 1,000 per cent and the excitement lasted until September, by which time it had sunk to 150 per cent. Several eminent goldsmiths and bankers were obliged to abscond; and every family in the kingdom felt the shock."[7] That is a moderate statement of the South

[6] "A History of Financial Speculation" by R. H. Mottram. Boston.

[7] "Chronicles and Characters of the Stock Exchange" by John Francis. London, 1850.

Sea collapse. Throughout that spring and summer London literally had been "by its ears." "A new fashion had been set. The whole town—relatively small and concentrated—with no suburbs sanctified to different grades of income—scrambled in the booths or at the open tables in 'Change Alley. The list of obviously fraudulent projects, floated by any rascal who could rent a room or put up a sign, makes us laugh today." [8] The eloquent non-conformist minister, Samuel Chandler, gambled and had to take service with a bookseller to pay his debts. A friendly banker gave John Gay, the poet, £1000 in South Sea Stock. With shares he held, Gay's profit at one time reached £20,000. He held for the long pull—and was cleaned out. A rich legatee, losing his whole fortune, went mad and wandered London for years calling himself "Tom of ten thousand."

So much for the South Sea bubble.

Obviously, the inhabitants of Dutch cities in 1634-37 gambled in tulips. Quite as obviously, the Parisians and the Londoners of 1720 were gambling madly in their respective Bubbles. That is, they were not buying shares with the sober-sided notion of putting them away and gaining profit through dividends and a normal increase in capital value as the advantages of the monopolies were exploited. What they were up to corresponded with the purchase of lottery tickets, or in a more remote comparison, buying chips at the poker table.

What is the differential between speculating in or plain gambling with securities? Apologists for the Stock Exchange make out a studied, somewhat subtile, case in order to show that margin trading and "short-

[8] "A History of Financial Speculation" by R. H. Mottram. Boston.

selling" never are gambling. Formerly, they adopted the distinction set up in England's Gaming Acts, wherein "the test is whether, although the transaction is in form commercial, the real intention of the parties is to make a mere wager on the price of the shares or commodity at a date fixed by the contract." The custom of the London Stock Exchange is to settle its trades fortnightly instead of daily as is the New York practice. At this time, the distinction favored by economists supporting the principle of a free market is this: One speculates when he contracts to buy or sell an object of value in itself; a gambler merely bets on a fortuitous outcome of an event or circumstance. The official stock market position was put into these words by E. H. H. Simmons, at that time President of the New York Stock Exchange, in an address at Houston, Texas, in 1925: "Speculation always involves the transfer of actual property, represents the assumption by traders of the inherent and inevitable risks of commerce and industry, and is furthermore an indispensable factor in effecting distribution between producers and consumers. Gambling on the other hand consists in a mere betting on prices and the taking of risks which bear no necessary relation to the ownership of property. If the New York Stock Exchange should attempt to prevent in its markets all speculative transactions, it would not only fail of its full duties to the public, but it would also tremendously hamper the growth and progress of the country. On the other hand, gambling in all forms has long been entirely forbidden on the floor of the Stock Exchange."

Brushing aside fine shadings and quibbles, it seems sensible to hold with the English legal theory that intent is what classifies the transaction.

No one doubts, least of all the sophisticated Wall Street broker, that the horde of Americans, from Sausalito to Buzzards Bay, who stormed commission houses during the New Era, check-book in hand, almost wholly uninformed about values, eager only to make a quick turn, were in the plainest possible sense, gamblers. The margins they posted admitted them to a new game. Their checks paid for chips.

And incidentally, the check-books of the public and the skill of professional marauders — including big bears, turned bull for the moment—created, by nearly everyone's accounting, the sorry state which followed the New Era; a state in which the United States was absurdly impoverished, with over-production of capital and under-consumption of goods.

We had in 1929 a vivid magnification of the therapeutic climax of Tulipomania. Throughout 1927, '28 and most of '29, the United States had indulged itself in the perilous enchantments of the mass game invented by the seventeenth century Dutch and stemming "from the natural propensity of mankind to speculate and gamble, a propensity which had never manifested itself on such a scale, or by a nation so wealthy as it did during 1928 and 1929 in the United States." [9]

An alien observer, Francis W. Hirst, editor of the solid and revered London weekly, "The Economist," visited New York before the bubble burst. He etched a graphic portrait of the deluded times, a picture valuable alike for his detachment and informed common sense. "Everyone was fascinated by the fluctuations of the Stock Exchange; everyone believed in the rising market, and everyone was eager to participate therein.

[9] "Wall Street and Lombard Street" by Francis W. Hirst. New York.

Many people were ready to borrow to the utmost limit of their credit and to stake their last dollar on the gambling table.

"Describing the furious passion which drove Roman gamblers to the dice box, the Roman satirist wrote:—Juvenal I, 88. 'When was dicing so furious? Today, instead of going to the hazard of the table purse in hand men stake their whole fortune on a throw.'

"All over America tens of thousands of professional operators had communicated the itch of Stock Exchange gambling to millions. Scrubwomen, porters, elevator boys, typists, boot-blacks, soda-fountain attendants, actors and actresses, school teachers and nurses, barbers, chauffeurs, in fact the whole population, rich and poor, one and all, fell a prey to the consuming craze for speculation. It seemed as if all economic law had been suspended and a new era opened up in which success and prosperity could be had without knowledge or industry. Comparatively little of the money lost was turned to good account by the gainers, though the stock exchangers had nine months of extraordinary profits. People were living in a world of illusion. The stock market gains led to extravagant spending and extravagant living, everyone feeling while stock prices were rising that he could afford to be generous with his supposed gains. Before the crash, all the luxury trades throve enormously; after it, they were put out of commission, and secondhand luxuries, such as cars, furs, gramophones and jewelry, were drugs in the market." [10]

Mr. Hirst does not doubt, any more than thoughtful observers on this side the water, that what fifteen million Americans were doing in Wall Street, during the

[10] "Wall Street and Lombard Street" by Francis W. Hirst. New York.

hilarious madness of the New Era triennium was gambling; (any more than social historians doubt that the Dutch in their triennial New Era were simply gambling) —the thrift, ingenuity and toil of the Continent put to the hazard of a vast and vastly hopeful army of gamblers.

Nor does anyone seriously doubt the preponderant part played by unchecked Stock Exchange speculation in the economic calamity which followed—a collapse so crushing, protracted and bewildering that social prophets wondered if it were not indeed an economic revolution; perhaps the twilight of capitalism itself.

As this is written, in the early part of 1932, the United States lies under a siege. A creeping panic has finally struck fear everywhere. The savings accumulated by the middle class have been obliterated, or dreadfully impaired, so that it would very likely take a generation of normal prosperity to restore them to their New Era aggregate. It is inconceivable that a conquering army would leave in its train greater misery, starvation, malnutrition, afflictions of body and spirit, homelessness, despair and the beggary of widespread classes such as are commonplaces of society in the richest country in the world, A.D. 1932.

III—PIRATES, SLAVE TRADERS AND STOCK BROKERS

BY an odd historical coincidence, the asthmatic, excessively grave Prince William of Orange founded the English National Debt, thus establishing stock speculation in London; and Wall Street enjoyed its first tidy portion of easy money within the same decade. The phenomena are, so far as is discoverable, in no wise related.

The curious fact is that London and this faroff provincial capital were almost simultaneously enriched —the former through the magicians and mesmerists of 'Change Alley; little old New York by the speculative, rutilant trade with gaudy pirates from the Indian Ocean and Spanish Main. And, if one chooses to be mystical about a street in which financial metaphysics, heresies, and sorcerers are indeed commonplace, a straight line of descent may be traced between the piping era of the Madagascar pirates, at the wheeling of the Seventeenth Century into the Eighteenth, down to the present moment when a severely chastened Wall Street lies in the shadow of national tribulation and the tallest towers ever lifted to Mammon.

If Wall Street may be said to have a genius—and why not? surely the narrow quarter-of-a-mile stretching from green-roofed, frowning old Trinity, amid its pigeons and gravestones, to the dingy West India docks in the East River has some sort of a spiritual nature, emanating as it does thoughts of prosperity or of de-

struction instantaneously and potently over the country —the genius is most certainly preoccupied with easy money. The place spirit of Wall Street obviously lives by his wits. Such a theory fits snugly into the manifest destiny of Wall Street from its muddy, low-roofed, trafficking Colonial eminence as the highway of the pirates and the seat of the slave market, unto its present distinction as the first money market in the Western Hemisphere; and presently, granted that capitalism holds together, in the world.

What an extravagantly appropriate succession of images! The great pirate Tew, an outlandish dandy, freshly ashore in the 1690's at the Wall Street Slip from a series of fabulously remunerative ambushes committed against fat merchantmen at the Straits of Bab-el-Mandeb; his sea chests crowded with rubies, the new yellow mintage of the Mogul, bolts of choicest silks. The pirate Tew, his ringlets the most elegant in the town, showering Spanish dollars on blacks who cleared his sedan-chair's path to the Governor's mansion at Whitehall. Tew, riding out in His Excellency's coach-and-six, titivating the Governor's Lady and her two daughters with curiously-wrought jewels, wounding the Governor with deep-throated, profound and characteristic blasphemies until that pious church-builder and Proconsul, Colonel Benjamin Fletcher, fetches from London a tract put out by the Society for Spreading the Gospel in Foreign Parts, sternly vouchsafing Hell's fury to the profane.

Blacks from the African Gold Coast, sick savages, mad with unnamable terrors, mounting the auction block at Wall and Water to be purchased by great merchants in periwigs—founders of fortunes still productive

in Twentieth Century New York—and by haughty Lords of the Manor, lumbering into town from estates the size of Old World duchies, in awkward, crested traveling coaches drawn by four Flemish hacks. Pirates swaggering with rings in their ears, African primitives on the auction block or, when recalcitrant, flogged through the street at a cartstail—and now the financial community, acutely civilized, adepts at the profitable uses of money, lenders to a continent, holding mortgages and fees, gambling with the third, perhaps, of a nation's wealth; ordinary looking men in sack suits, they animate the symbol Wall Street has become. Nor is the historic pattern of Wall Street marred by the residence thereon of Captain Kidd before that buccaneer, by his tactless industry, exposed his noble patrons to obloquy, and hence was handed over to the hangman. The single-minded Kidd beat the drums in Wall Street for ninety recruits on his first voyage to the Indian Ocean. His speculative enterprises helped to found New York's wealth.

What a vivid panorama of ruffianly exploitation, shading, through the scandalously anarchic warfare between bull and bear of the past century, into the adroit, and cataclysmic, manipulation of this period!

Preeminently a speculative street after the wise Earl of Bellamont leveled, in 1699, old Stuyvesant's palisade, Wall Street has known moments of spangled glory. But they were transitory. The true nature of the Street was affected only a little. No moment could have reflected more sheer magnificence, if in miniature, than Peter Stuyvesant, High Mightiness and Governor-General of New Netherland, parading his militia alongside the log wall that gave the Street its name.

Stuyvesant, "our great Muscovy Duke,"[1] the silver bands of his pegleg gleaming, surrounded by the four halberdiers of his bodyguard, brilliantly breast-plated, his forthright and angry brow frowning reproof on the recruits of his little army, furnished a warlike sight the like of which Wall Street has not again relished in its nearly three centuries.

On an April Sunday morning in 1775, Israel Bessel, travel-worn but blowily articulate, rode in from Boston with news of the Battle of Lexington. He halted his nag at the watering trough in front of the First Presbyterian Church, replaced many years afterward by the First National Bank, and declaimed his tidings to the worshippers emerging there and at nearby Trinity, the garrison church. On the succeeding July 18th, with Wall Street surging, curb to curb in Liberty Boys, the Declaration of Independence was read from the steps of the City Hall, which then sat at Wall and Nassau, site of the present Sub-Treasury. Then came the War of the Revolution, Washington's retreat and his re-entry after seven years; capped by his truly triumphal advent into New York, at the foot of Wall Street, in April, 1789, as first President-Elect of the United States of America. For a precious, inextinguishably proud eighteen months—a harvest-time with John Simmons, the Gargantuan inn-keeper, and Mrs. Daubeney's fashionable boarding house, as well as Huck's and the more modest inns—Wall Street ruled as the capital of the Republic. General Washington, in impeccable ruffles and laces, powdered cue and small clothes, traveled in his orgulous, canary-colored coach crested with the seal of the Presidency, behind six grey horses, to City Hall,

[1] "The Story of a Street" by Frederick T. Hill. New York.

now Federal Hall and the grandest public building on the continent, to take the oath of office. Implacably grave, the Father of His Country swore from a deep balcony directly opposite the present Stock Exchange, to defend the Republic. In that fleeting hour of glory, Wall Street teemed with other doughty Fathers of the Republic—Hamilton, John Adams and Henry Knox, Thomas Jefferson and his aristocratic Jacobins from Virginia, James Madison and James Monroe; the large-fisted John Hancock of Massachusetts, the desiccated John Jay, and that garrulous, brilliant and fetching rogue, Aaron Burr, among others.

Alexander Hamilton, in a very exact sense the father of modern Wall Street, coolly traded the Street's political glory to the wily Jefferson for a financial Bill which founded a National Debt, and indirectly gave birth to the New York Stock Exchange and a new kind of power for the Street.

Whereupon, deprived of fanfare and the distractions of Governors and Senates, Wall Street single-mindedly resumed its interrupted destiny. At the moment Boston and Philadelphia, which had not undergone the rigours of British occupation anywhere near so lengthily, nor the depleting exodus of so great a Tory population, were larger, more flourishing and somewhat disdainful of New York as a trading center. In 1790, no prophet arose to say that Market Street in Philadelphia, or State Street in Boston, would one day be merely provincial seats of finance, whereas Wall Street in a little more than four generations would influence currency standards and world money rates, finance the Old World and balance diplomatic and military relations throughout a still semi-civilized globe.

A generation went by, DeWitt Clinton dug his Erie Canal, shrewd men saw that New York alone of the seaboard metropoli possessed an easy, water-level route into the West; an ingenious chap in England named Stevenson had put rails under the steam engine—and lo, New York entered into its destiny as the foremost trading post of the New World. Philadelphia had the first National bank, Boston the entrenched discipline of a homogeneous middle class, but New York, apart from natural advantage, displayed energies surpassing those of its older rivals.

The accepted explanation for the fact that Wall Street today indisputably controls the country's finance, hinges on the fortuitous element of a water-level route to the Great Lakes. But the reason is not so simple. The fact is, as everyone knows, that New York's—and necessarily Wall Street's—destiny was predetermined by its early nature. New York, uncomplicated by the extraordinary fervors of a theocratic Evangelicalism which motivated the Bostonian, and the deceptively frail yet stern Quaker "heresy" which set the social mold for Philadelphia, never had to turn aside from the pursuit of gain to water the spirit of a faltering ideal. New York never confused its main purposes with strange and radical notions. Boston was in essence a Puritan settlement, Philadelphia a Quaker. New York from the beginning of its settlement by the Dutch, was primarily a trading post. Commerce, not dogma, ruled the town. Moreover, its cosmopolitan air attracted Dutchman, Englishman, Scot, German, Frenchman, Jew and Irish, from the start. Seldom offensively sectarian, never deflected by a social ideal or by unbecomingly fanatical patriotism, New York matured into a harlot

city, gay, bawdy, unperplexed by principle and interested in hire.

The town fought, bled and died wholeheartedly in no war until the Cuban expedition. The train bands, citizen troops, were painfully laggard during the French and Indian War. The Revolution found the bulk of the merchant class, which set the tone, profitably wedded to London. Tories ruled the great houses of Wall Street and Broadway as, somehow, the Lords of Manor more numerously took the side of Washington and the Continentals. New York rested comfortably under the heel of the cousinly invader for seven years. The War of 1812 outraged the trading class. In the War Between the States, the unconscionable Fernando Wood, the mayor, proposed secession and the establishment of a free city and state similar to the Adriatic commonwealths in the Middle Ages. Preponderantly, New York in the 1860's sided with the South as against the North; but mainly with itself. But by the end of the last century, New York having grown fat on tribute levied upon the Continent and having, therefore, widened its field of interest, clamored for the common cause as ardently as any new cosmopolis of the West. Yet, even today, New York is a city set somewhat apart by a pagan and predatory nature, and impatient anti-Prohibitionists and libertarians of other ilk, frequently and only half in humor, suggest that New York separate itself from the rest of the land. The persistent cry from the West and South that New York is an alien city is no doubt founded as much on its self-engrossed tradition as on racial proportions in the populations.

The theory that Wall Street was predestined to be a speculative seat is amusingly plausible. It is supported

by ancient evidence, as when we recall that the Street itself was cut through as the result of a deplorable speculative stroke on the part of His Excellency, Thomas Dongan, who in 1685, ordered the environs of the famous wall surveyed. Thereupon, he bought, through a dummy and from a farmer named Damen, a strip running one thousand feet along the wall and eighty feet deep. The Royal Governor then laid out a street thirty-six feet wide, narrowing the Parade Ground which had been from Stuyvesant's time a full hundred feet wide. The lots he presently offered for sale thus became not eighty, but one hundred forty-four feet deep, and their value to the Governor's purse thereby measurably enhanced.

Even earlier and bearing more directly upon the notion of a singular nature for Wall Street is the attested fact that the Stuyvesant palisade, erected in 1653, went up under contract to Tomas Bacxter, a worthy carpenter in the colony, who later turned into a bloodthirsty pirate. Thus, piracy, if only in prospect, marked from the outset the particular strip of New York soil with which we deal.

If Governor Dongan's shrewd manipulation was, as a historian suspects, a "notorious speculation,"[2] what must be said about the extraordinarily speculative character of the enterprises carried on by Captain Kidd, the great Tew, Coats, Hoare, and other sea rovers who made Wall Street their "favorite stamping ground,"[3] often displaying therein "their gorgeous persons?"[4] In sea raiding, it seems logical, lies the quintessence of speculation. The New York pirate not only accumlated goods in the hope of a favorable market, but he put his

[2] *Ibid.* [3] *Ibid.* [4] *Ibid.*

life as well as his possessions at the hazard of the task. Thus, the extraordinary plunderers who frequented Wall Street in the last years of the Seventeenth and the early years of the Eighteenth Century were shining speculators, and the merchants of the town right willingly shared in the speculative voyages to the Indian Ocean and to that "no man's land, Madagascar."

Let us consider a portrait of the greatest merchant of the 1690's, Frederick Philipse, first in a lengthy line of richest New Yorkers. Philipse, his fortunes established by one and happily augmented by a second convenient marriage, traded to the East and West Indies under his own sail. He trafficked also with the Five Nations, the "Wilden," at Albany. He bought the fertile tract between the Harlem and the Croton Rivers in Westchester County. His manor house still stands, a monument, in Yonkers. He was a Crown Councillor. "He was grave, even to melancholy, and talked so little that he was often pronounced excessively dull. He was not a man of letters, or of any special culture. He was intelligent, apt, a close observer of men and things and shrewd almost to craftiness. In the political controversies which were more deadly bitter in that remote period than they have ever been since, he never meddled, but laid his hand upon his purse, and waited to see which party was likely to win." [5] The Philipse, who came out to New Amsterdam as a company carpenter, who sailed for home, defeated, at the age of 36 only to be wed at sea by Margretta Hardenbroeck, master of her own sloop; who died—"the Dutch millionaire"—a feudal Lord of Manor, authorized to rule his tenants and hold Courts Leet and Court's Baron at Philipseburgh

[5] "A History of New York City" by Martha J. Lamb. New York.

(Yonkers). To the end he signed himself Vlypse. This was the Philipse of whom the estimable Lord Bellamont said he expected that New York would be flooded with pirates' gold when one of his shallops, about due, reached port. Philipse imported slaves for the Wall Street market. One of his captains was suspected of sustained piracy. He dispatched ships, laden with bolted flour, pickled meat, woolen cloth, sugar, tobacco, etc., to Madagascar, where it was infamous knowledge that the merchantmen of New York plied a ruddy trade in the Jolly Rogers' shadow. Philipse was by no means unique in the Madagascar traffic. None of the merchants, so far as can be learned, refused this extraordinary source of easy money, either at home or in Madagascar waters, during the term of devout Governor Fletcher.

Consequently, wealth dizzied the town. "Arabian gold and East India goods were everywhere common. New York was getting rich at a most extraordinary rate."[6] No one doubted the rumor that Colonel William Nicolls, a Councillor and an agent for the colony in London, met with the pirates at a rendezvous in Long Island as Fletcher's deputy. The gossips could draw a map of the exact cove into which the freebooters' longboats pulled for these private negotiations.

It was the heyday of New York's first bonanza—a bonanza based on speculation of a sort quite different in form from that of the Coolidge New Era; but characterized similarly by a socially irresponsible and feverish craze for easy money.

Then came Bellamont, a great liberal, and democratic in spite of his glittering coach-of-six and superior

[6] *Ibid.*

table. The new Royal Governor, the most enlightened, upright and courageous Proconsul sent out from London to this colony, promptly became a scourge of the pirates. But not only pirates fell under his displeasure. Lord Bellamont, who has been done justice in no available history, dealt firmly with the great landowners, the clergy and the merchants as well. He vigorously opposed all privilege. He suppressed the flamboyant trade between Wall Street and the freebooters; but he also attempted to constrain the merchants into lawful dealings otherwise. He tried to enforce the laws against smuggling. He had as little success as governors traditionally enjoyed when they attempted to collect import duties. None of the artificial limits set by law to intercourse is so often and popularly flouted as the Customs Act. Historically, smuggling is a glamorous offense treated with levity by the people, with moderation by magistrates, and Twentieth Century Americans have sufficient precedent for their unconcern over rum rows and the swift caravans out of Quebec.

Bellamont's attack on the land-holding aristocracy was as fierce as his war on piracy. Himself the Baron of Colooney and Earl of Bellamont, and owner of extensive acres in the United Kingdom, he conceived it injudicious for a new country to adopt the land habits of feudalism. No man, he said, inconsiderately, could make economic use in a new world of more than one thousand acres. That did not sit well with Philipse, with the Van Rensselaers, governing their principality, forty miles square in the upper Hudson; William Smith, the one-time Governor of Tangier, whose principality embraced fifty miles of Long Island shore front and ran athwart the Island; Robert Livingston, the bold and

venal courtier, whose manor comprised 160,000 acres, the fairest part of Dutchess County; the Morrises, the Van Courtlands, the Schuylers and the Gardiners of Gardiner's Island. Dominie Dellius, the learned Dutch clergyman, who pacified, and remained to trade profitably in acreage with the Iroquois, also fell into this class and when Bellamont proposed to expropriate the Man of God also, Dellius hurried to London with the prayers of the Rev. Will Vesey, rector of Trinity, hot on his non-conformist neck. Trinity also had estates to lose. "Bellamont, from all he could learn, was convinced that much of the wealth of the New York aristocracy had been dishonorably obtained. The enormous landed estates haunted his mind. Small men could not obtain a foothold in the province. Every acre of government land had been granted away to feudal lords; in many instances, in tracts from twenty to forty miles square. It had a ruinous outlook. He finally levelled a fierce blow at the great land-holders by an attempt to break all existing grants and the shaping of a Bill which should be approved in England, to prohibit any one person from holding over one thousand acres under any circumstances." [7]

Manifestly, the Earl of Bellamont, for all his gracious dinners, his charm and cosmopolitanism, could not long be holding the approval, after his arrival in 1698, of the "best people." His war upon the pirates merged into these other conflicts and, in addition, was economically unpopular. New York had had its first giddy experience with quick and important money.

During Bellamont's brief reign, lasting only two years, a proposal was handed up from the Provincial

[7] *Ibid.*

Assembly for a poorhouse. He "smiled ironically . . . and remarked that there was no such thing as a beggar in the city or the country. And it is a significant fact that in no other part of the King's dominions at that time was there so rich a population as in New York." [8] Bellamont persisted in his campaign. Injudiciously, in a private talk, he named the merchants who, common report said, were financing the voyages of the richly bedecked and blood-stained wretches who preyed on the Indian Ocean. The dour Philipse cut him dead. Great merchants such as Nicholas Bayard, Philip French, Gabriel Minvielle, Rip Vandam, Stephen DeLancey, Brandt Schuyler, Elias Boudinot, muttered in their counting rooms, sent urgent complaints to London and whispered sneeringly that Bellamont himself had helped to outfit William Kidd.

Bellamont had. Robert Livingston, reputedly the most grasping nabob in the colony, had induced Bellamont, along with King William, the Earls of Oxford and Rumney and my Lord Somers, to sanction Kidd's first journey to the Indian Ocean in 1696. The nobles and Livingston had contributed £3000 toward the enterprise. The thrifty King, who was to have furnished another £3000, neglected to do so but looked forward, nevertheless, to a proportionate share in Kidd's putative takings. It really was Livingston's undertaking; he recommended Kidd, who had been living at what is now No. 56 Wall Street and who was presumably a steady-paced master of packets in the London-New York trade, to the King and to Bellamont. Pirates, many of them English and some of them Colonial, had been wasting the commerce of the Indian Ocean for years. They

[8] *Ibid.*

had become impertinent, pestilential, daring finally to loot even the privileged ships of the East India Company and stodgy galleons in the service of the Grand Mogul, whose grandeur was on the wane and who, lacking a fleet to protect his bottoms, looked to England. Kidd, stopping off in New York in July, 1696, to recruit a crew, sailed in his stout frigate to avenge the dignity of Great Britain, protect the Mogul and convoy the East Indiamen. Upon arrival, he found himself, with his six-pounders, the most powerful factor in those lawless waters. He captured buccaneers—but he also robbed and sank ships he was sworn to protect. He brought his treasure to this port. He buried a king's ransom on Gardiner's Island, which lies to the north of Long Island near its end.

Kidd became as scandalous a figure in Wall Street as any Jacob Little, or Daniel Drew, or Jim Fisk, or Jay Gould, or Jim Keene in later generations. His exploits tarnished the reputations of all such patrons as could be in any way damaged. Such a one was Bellamont the upright. The King was sans reproach. Livingston had little enough repute to spare. But Bellamont was a reformer and therefore sensitive in his honor to the slings of detractors. It must have been a sore point with the good Bellamont to be levying tirades against the piratical affiliations of the rich burghers of New York, while at the same time he stood suspect in the market-place of sharing in Kidd's profits. Nevertheless, he persisted.

The town became rife with suspicion. "The great bone of contention in the council was piracy. All were agreed in the necessity for its suppression. But as to its actual extent there was a vast difference of opinion.

Bellamont was informed that Colonel Bayard had assisted Fletcher in giving protection to pirates. He proclaimed it with emphasis. He also startled his associates by making known his suspicions in regard to several others among their number, who had unquestionably been concerned in the encouragement of depredations upon the sea. The retort was in the very nature of things inevitable. It was now well known that Captain Kidd had raised the black flag; and the possible complicity of Bellamont himself was on men's lips all over the world. The iron entered the noble soul. But the Earl would not allow any such misrepresentations to come between him and the execution of what he considered his duty. He was trying to purify a corrupt government, and suspected men must not be allowed to stand in high places. He therefore proceeded to remove Colonel Bayard, Gabriel Minvielle, Thomas Willett, Richard Townley, and John Lawrence from the Council. The following morning Frederick Philipse resigned.

"The excitement was intense. Rumor distorted facts, and the displaced gentlemen were accredited with the darkest deeds. A beautiful diamond worn by Mrs. Bayard was said to have been taken from the finger of an Arabian princess, and romance quickly wove the story into a bloody murder. It was reported to have been the price paid to Bayard for obtaining the murderer's protection. It was for a time currently believed that Minvielle possessed a large box of Arabian gold pieces obtained in a similar manner. John Lawrence was said to have often entertained the freebooters at his house on Long Island. Frederick Philipse was the subject of much speculation. He owned several great

merchant-vessels, and it was said that three or four were coming in from Madagascar laden with jewels and costly wares, and that his son, Adolphe Philipse, had gone out in a small ship to meet them and conceal the treasures. This last story was the only one which had any tangible foundation. Adolphe Philipse did go out as reported, though his object was never made known. When the vessels were at last entered, the depositions of the crew substantiated the original statement of Philipse that the goods had been bought at low prices from African traders instead of pirates." [9]

In the year 1696 the problem became urgent when New York was reduced nearly to famine through the presence in these waters of pirate flotilla. The Bolting Act had been repealed in that year, destroying the monopoly which the millers of New York enjoyed. Each farmer was free to grind his own wheat, bolt his flour. Heretofore, all wheat grown in the province had come to New York and here been turned into flour for disposal by the merchants. The result of the repeal was that the farmers along the Long Island shores and up the Hudson could serve the pirates as well and more cheaply than the merchants. So great was the demand from these men of private war that very little flour reached New York for the consumption of its dwellers. The price of flour doubled. A speculative market forthwith was created—the sort of haphazard, rule-of-thumb method of distributing the world's goods which apologists for the Stock Exchange defend. New Yorkers suffered, the pirates and the farmers gained.

That was one aspect of the age of piracy. But New

[9] "History of the City of New York" by Martha J. Lamb.

York was rich and could pay for its costly wheat with pirate's gold.

Lord Bellamont, by his energy, finally, however, made dealing with the seafaring sons of Belial uncomfortable. He thus suppressed the first bull market in Wall Street. The honest Earl became the first bear. And in 1699 he was able to vindicate his honor by arresting Captain Kidd, while on a journey to Boston, which also lay with all New England within his charge. Through a ruse he tempted Kidd ashore, had him chained and dispatched to London where on May 12, 1701, at Executioner's Dock, he paid with his life for high crimes, including that of traducing the repute of noble lords. The honest Bellamont had preceded him into the vale, dying on March 5, 1700, his bones finally resting in St. Paul's churchyard in lower Broadway. Thus ended Wall Street's first boom.

The town had come a long way in 1700, owing mainly to the stimulus of pirates' gold, from the New York of a generation before—"the little village with its crooked road winding around hillocks and ledges, its untidy houses with hog pens and chicken coops, with tumble-down chimneys in the rear." [10]

But throughout the Eighteenth Century, until the Revolution so dramatically altered the face of affairs, Wall Street progressed with the slow pace of any provincial town. In 1709 a market house grew up at the end of the Wall Street Slip. The Street was giving way to respectability. Ships suspected of piracy scarcely ever berthed in the East River now. Outside this market house stood an auction block where black slaves from Angola and Madagascar were by custom sold. It

[10] "The Story of a Street" by Frederick T. Hill. New York.

became a market-place as well for the services of slaves. A merchant, or butcher, or chandler, or landowner could repair to that spot and hire the services for a term of someone's idle buck or wench. The Negroes long in the country affected gay costumes, plaited their hair in forelocks, mollifying it with the oil of eels. The foot of Wall Street became a rowdy spot, clamorous with the cries of bidders and the barbarous gaieties of the blacks. By 1720 the market had been erected into a monopoly. It was now the Meal Market and the only spot in the town where merchants could trade lawfully in wheat, rye, corn and flour. The slave block remained. The Bayards built nearby the most massive structure in town, a four-story brick mill in which they demonstrated the "mystery of sugar refining." But that was out of the usual way—Wall Street has never been renowned for productive industry.

At the other end of the Street, the City Hall looked across a grim paraphernalia of whipping post, cage, stock and pillory, to where the Stock Exchange now stands, but where the mayor's court, magistrates' seat and constables' headquarters, then were situated. A squat, frame Trinity with a preternaturally tall steeple blocked the westward path of Wall Street then as its successor does now. Its neighbor to the northeast was the angular brick meeting-house of the Scots, the First Presbyterian Church. The Street itself, paved with cobbles for ten feet outward from each building line, with a combined gutter and sewer in the center, was being lined itself with decorous mansions, some four stories tall. Mme. Sarah Knight, an adventurous Colonial matron who traveled a-horseback from Boston to New York in this period, found the domestic archi-

tecture of Wall Street rather attractive after the austerities of the Puritan metropolis. The brick houses, she noted, had a gay aspect. Their bricks were "in divers colors laid in checks and glazed."[11]

New York, even then, it may be seen, had a brittle and pagan exterior.

Great deeds were afoot throughout this century. John Peter Zenger, the printer, vindicated the right of a free press and established the principle of a generous libel law for the eventual sake, no doubt, of the publishers of gossip weeklies and daily tabloids. A pseudo-uprising of the blacks struck terror to Wall Street and the town. Without benefit of jury, black and white suspect alike were hanged by chains and burned at the stake during this frenzy. Both events focussed in Wall Street, the trials of Zenger and of the unfortunate victims of the slave plot taking place on the second floor of the City Hall in a court chamber dominated by the royal arms.

Meanwhile, Wall Street underwent another minor transformation. While blacks were being knocked down to the highest bidder at its foot, its upper end had evolved into the high place of piety, of government and of correction. And as the century entered its final third, the Street became embroiled in agitation. The Stamp Act and the tax on tea aroused the merchants who lived in the porcelain mansions to a greater fervor of protest than publicans, butchers and artisans—the "inhabitants," the voteless, property-less mob. These seemingly harmless measures of indirect taxation levied by Lord Grenville at Westminster provoked the first Continental legislative session in Wall Street, the Stamp Act

[11] "Mme. Sarah Knight's Journal." Boston.

Congress of 1765 in City Hall, considered by many an authentic forerunner of the Continental Congress and hence of the Congress of the United States.

By 1762 a spasm of respectability had swept the slave market out of Wall Street. Within a very few years the center of fashionable dwellings moved around the corner from Pearl into Wall Street. The War overwhelmed the Street, old Trinity burned, the Scots' church was remodeled into a hospital in 1780—the year of the Big Freeze, when the Bay was frozen so solidly that artillery could be hauled to and from Staten Island —the Hessian Generals Knyphausen and Von Riedesel, who had taken houses in the Street, ordered the buttonwoods and maples that towered before the mansions felled for firewood.

The War passed, the Government appropriated the Street, it too passed away, to Philadelphia, and in the year of its going, Wall Street entered into its second exaggerated period of easy money. The day of the stock broker was at hand.

IV—HUZZAH FOR HAMILTON!

THE snowy cobbles of Wall Street crunched at dusk of January 9, 1790, under the flying heels of speculative gentlemen, heady from a sweet draught of golden words. Alexander Hamilton, brilliant, young, cynical, yonder in his library at Broad and Wall, had made them rich. The warrant had just been read in the scarlet-draped House of Representatives occupying the splendid Federal Hall at Wall and Nassau. The first Secretary of the Treasury had funded the assorted Continental debts at par—and a hell's bilin' of gamblers, politicians and merchants, deliriously clapped mug to table that night in coffee houses and porter tavern. Mr. Hamilton and the Public Debt were toasted no less fervently in the mansions of the respectable and wealthy.

Huzzah for Hamilton!

In two years, plus three months, the tune had changed.

Now a dispirited congregation of speculators gathered about the bole of a buttonwood, which sheltered an embryonic stock exchange. Gloom dwelt foggily over the Merchants' Coffee House at the foot of the Street; business in the town's mercantile houses was suspended as clerk and customer exchanged tidings of woe; Dan McCormick, the witty bachelor, held morose court on the stoop of his "house of gossip" in the Street, a sullen little mob besieged the shuttered house

of Duer, cursing, half-heartedly threatening to destroy the gilded and plethoric worthy within.

Colonel William A. Duer, the first big bull, the first great plunger in Wall Street, had tried to corner the United States Bank and, failing, had crashed for $3,000,000. The Hamiltonian New Era was at a dismaying end. Ruin rode beside the great merchant in his coach-and-four. Fear spread, commerce declined overnight, New York became a mad-house and the gamblers who so recently had toasted Hamilton, conducted themselves now on the "mean level of fish women and street boxers."[1]

When Wall Street sustained its first great panic in 1792, it had passed, within two years and three months, through a swiftly revolving cycle. Seizing upon Hamilton's expedient, which provided a fluctuating National Debt as tokens, its "moneyed interest" quickly learned the technique of mass gambling improvised by the Dutch in their tulip "colleges," and improved by the English stock-jobbers, trading in Dutch William's public stock along 'Change Alley. The first Wall Street boom, in which gamblers, many of them founders of the Republic, accumulated paper winnings running to perhaps $40,000,000; the first pool syndicate, the first attempted corner; the first big bull, the first bear raid, the first crash—and all within twenty-seven months.

And toward the end, the stock brokers of the legendary buttonwood tree, a group of outsiders, organized into an association which with variant fortune and numerous changes of address and form, evolved into the present New York Stock Exchange. Expert in the new mercantilism of credit, proficient in "making a market"

[1] New York correspondent of the *Maryland Journal*, April 13, 1792.

for the crude paper tokens of the period, the occupation of stock brokerage separated itself from other trading classifications in New York as late as 1792.

The juggler in money qua money had arrived in the New World, with all the sordid, knavish implications which shadowed his dealings in the Old, sponsored by the great Hamilton, implemented with the fluctuating values of a public debt, and only a little more ignorant of the essential nature of credit—that modern mysticism—than the masters of Wall Street showed themselves to be during the giddy post-World War inflation and the appalling destructiveness of subsequent deflation.

War debts supplied the counters in the Hamiltonian New Era as they had when the hard-pressed William of Orange founded England's permanent debt a century earlier. War debts, public pledges, the reams, the sheaves, the bales of promises to pay which the Continental Congress and the State Legislatures had pushed out desperately during the Revolution, silencing but not satisfying private soldiers, farmers, millers, brewers, iron mongers and all the ruck of provisioners and victualers, merchants, land speculators, and Lords of Manor who had sustained the Continental cause with services and treasure. By 1788, this scrip, owing to the lack of a central government able to impose a revenue, had become as "worthless as a Continental." There was no certainty that it ever would be worth more. Consequently thousands of little fellows, inland farmers, ex-soldiers, small merchants and the like, had traded their certificates for a fraction of the face value. Daring gamblers, willing to take a long chance, had picked up great quantities of this paper. And, when

rumors spread long before the first Congress of the United States met in Wall Street, in 1789, that Hamilton intended to redeem the semi-worthless pledges, canny town merchants, politicians and others possessed of specie, joined in the scramble. A "column of Midas" formed in Congress itself. When Hamilton contrived, therefore, in 1790—and appropriately, as we may suppose, in Wall Street—to establish the credit of the infant Republic at the expense of the poor and the enrichment of the insiders, New York's first acute money fever set in.

The plain account of how Hamilton, so averse to any reminder of his lowly and off-hand birth in tiny St. Kitts that his reverence for property and rank approached the pathological, seduced the self-interest of the members of the first Congress virtually to the point of bribery in order to put the war debt into the hands of the powerful, is wholly shocking. The scene on January 9, 1790, when an intoxicated company of speculators—merchants, brokers, politicians and other mercantile fry—burst from the new marble rotunda of Federal Hall after hearing Hamilton's "Report on the Public Debt" read in the House of Representatives, has not been matched for candid venality in the later history of the fabulous Street. Hamilton had issued a frank bid to the cupidity of his adopted countrymen; he had not underestimated their greed. It was his avowed object, the slender little West Indian adventurer —like John Law, of the Mississippi Bubble, Scottish by blood and not a native of the country whose finance he manipulated—to align the rich trading classes in support of his plutocratic program. He succeeded. Nearly half the members of the House, a large part of

the Senate, and nine-tenths of the bewigged snuff-taking citizens who leaned over the gallery rails that day owned shares in the Public Debt, the value of which rested on acceptance of Hamilton's plan. "Four days after the 'Report' was read, 'expresses with very large sums of money on their way to North Carolina for purposes of speculation in certificates' splashed and bumped over the wretched winter roads, the drivers lashing the strained horses. Two fast-sailing vessels, chartered by a member of Congress * who had been an officer in the war, were ploughing the waters southward on a similar mission—and this scandalous proceeding was to be mentioned in the subsequent debates. 'I really fear,' wrote Maclay,** 'the members of Congress are deeper in this business than any others.' Whether they were deeper or not, they were deep enough, and numerous enough to hold the balance of power in the body that legislated the certificates to par." [2] A deplorable, altogether human and utterly disreputable spectacle. Fathers of the Republic, caught in Hamilton's richly baited snare, joining in shrewd syndicates in New York, Philadelphia and Boston, to exploit their ignorant compatriots. Senator Robert Morris, the "patriotic financier," was deep in it. So, too, was Gouverneur Morris, the aristocrat, who, as Minister to the France of the Terror, made love to the Duchess of Orleans, dallied with the frail Madame Flauhaut, the novelist, and intrigued for the King. Likewise, Rufus King, senator from New York, Brockholst Livingston, Fisher Ames, General Philip Schuyler, the other New York senator and father-

* Jeremiah Wadsworth, Connecticut.

** William Maclay, senator from Pennsylvania.

[2] "Jefferson and Hamilton" by Claude G. Bowers. Boston.

in-law of Hamilton, as well as the financial wizard's brother-in-law, Church. Likewise, Colonel Duer, lately an Assistant Secretary of the Treasury, Hamilton's intimate, the most pushing man of money in Wall Street and the son-in-law of old Lord Stirling.

Certain men in the first Congress take rank for venality with the contractors who sat in the Parliaments of George III, the brokers in goods and public funds, whose talent for bribe-taking enabled Lord North to sustain the war against the colonies. Exasperated English historians have pilloried the latter lot. American historians, accustomed to deal more leniently with national heroes, have not done exact justice to the racketeering senators and representatives who used their votes to consolidate speculative fortunes in the national debt and manipulated the resources of the first United States Bank for their profit. James Madison, most learned social philosopher who sat in that Congress, intimate of Jefferson and later President, was an honest man by everyone's account. Appalled by the speculative mania manifest during the formation of the National Bank, after the Congress had removed to Philadelphia, he wrote to Jefferson in July, 1791, as follows:

> "The subscriptions (to the Bank) are consequently a mere scramble for so much public plunder, which will be engrossed by those already loaded with the spoils of individuals. . . . It pretty clearly appears, also, in what proportions the public debt lies in the country, what sort of hands hold it, and by whom the People of the United States are to be governed. Of all the shameful circumstances of this business, it is among the greatest to see the members of the

> Legislature who were most active in pushing this job openly grasping its emoluments. Schuyler is to be put at the head of the Directors, if the weight of the New York subscribers can effect it. Nothing else is talked of here. In fact, stock-jobbing drowns every other subject. The Coffee-House is in an eternal buzz with the gamblers." [3]

In the Coffee Houses of New York and Philadelphia, the cynical had labelled trafficking law-makers the "corrupt squadron."

Hamilton himself presumably did not share in the speculative swag. There is no direct evidence of personal trafficking. The bias of the greatest Secretary of the Treasury before Andrew W. Mellon was not toward accumulating money; his extraordinary ambition seemed to content itself with aggrandizing the class he so ardently worshipped and establishing a plutocratic government under which the benefits would inevitably flow toward the rich. A strange and thwarted figure, Hamilton. Always an alien to the lusty, intemperately rebellious, individualistic America which fought King George, he sought to impose a monarchy on the Constitutional Convention. He vainly proposed an American king, senators seated for life, governors of state to be merely viceroys, rigid property qualifications on suffrage. He failed in his political designs, yet he set the mold of developing plutocracy in this country. The Republican Party is his direct and grateful legatee. He justified the concentration of power at Washington and a protective tariff. When he founded the National Debt in 1790, he fathered the Stock Exchange. Wall Street today is cut to his jib. Hamilton is the spiritual

[3] "Works of Thomas Jefferson," edited by Worthington Chauncey Ford. New York.

ancestor of the late J. Pierpont Morgan. Both were disdainful of the masses, powerfully integrated in their faith that only the "monied interest" were endowed with wits enough to manage. Hamilton is the idol of the business interest; and he might well be. He magnified the trading class beyond its status in any other country. The responsibility for the widely noted circumstance that culture in the United States is articulated with commerce in an inferior relationship rests largely with Hamilton.

Intending to suppress the mob, he destroyed instead the semi-feudal, landed aristocracy in York State. The Lords of the Manor could not, and as a matter of fact did not, survive long in a society which granted the most splendid rewards to the speculator in paper. This body of landlords, in the Hudson Valley and on Long Island, "constituted a peculiar aristocracy in itself and was the dominant class in the politics of New York during the period between the Revolution and the adoption of the Constitution, as it had been before the war."[4] Their power promptly waned thereafter. Hamilton cared little for these gentry. His preoccupation was plutocratic, rather than aristocratic. He trusted the lord of the counting room above the lord of a valley as a custodian of his Federal ideal.

The egregious John Fenno, Hamilton's first journalistic lackey, he who had hoped to make his "Gazette of the United States" a "court journal" of the Republican Government, sought to soothe the fears of the apprehensive aristocrats in 1792 when it was suspected that speculation in paper equities would enhance the prestige of

[4] "An Economic Interpretation of the Constitution of the United States" by Charles A. Beard. New York.

the commercial classes. Fenno wrote: "On an impartial view of the United States, no man will deny that the landed interest maintains its ancient preponderance, nor will he pretend that the value to which the public stocks have risen, will diminish it. . . . On this general view of the subject, a man may be convinced that there is no overruling monied influence raised up to govern the landed, as those writers have insinuated whose purpose it is to set one part of the people against another."

But Hamilton's great purpose could not be stayed by aristocratic plaints any more than by the protests of skeptical, and less acquisitive, patriots. The engine of public credit was novel. No one knew precisely its uses, limitations or power. And so the bubble, which began to inflate on January 9, 1790, grew monstrously thereafter. Throughout the States, but especially in New York, Philadelphia and Boston, the tavern talk, the preoccupation of the counting room, the major interest of the people became gambling with shares of the public stocks. Gamblers, unable to acquire scrip at one-tenth to one-quarter its value as had been done formerly, resorted to forgery, and even to counterfeiting. Thomas Jefferson wrote in the following pessimistic strain to Edward Rutledge:

> "What do you think of this scrippomony? Ships are lying idle at the wharfs, buildings are stopped, capital withdrawn from commerce, manufactures, the arts and agriculture to be employed in gambling, and the tide of public prosperity . . . is arrested . . . in its course.
>
> "I imagine that we shall hear that all the cash has quitted the extremities of the nation and accumulated here. Stock and scrip are the sole domestic subjects of conversation. Speculation is

carried on with money, borrowed at from two and one-half per cent a month to one per cent a week." [5]

The expansion of credit provided by Hamilton, might have created an era of plenty if applied gradually. But no one seemed able to reckon sensibly with an apparently limitless store of easy money in sight. Gambling merchants neglected ordinary commerce. Money was diverted, debts went unpaid, sound investments begged for funds and in the outlying regions money grew scarce, the poor labored under a mountainous sense of fraud and the Wall Street speculator trading with the brokers under the buttonwood, drew upon himself shafts as venomous as any levelled at the sharpers of 'Change Alley.

"As a result in the remoter sections the hatred of the speculator had reached the stage of hysteria. 'Clouds, when you rain, bleach him to the skin,' prayed a Georgia paper. 'When you hail, precipitate your heaviest globes of ice on his ill-omened pate. Thunders, when you break, break near him, shatter an oak or rend a rock full in his view. Lightning, when you burst, shoot your electric streams close to his eyelids. Conscience, haunt him like a ghost. . . . Ye winds, chill him; ye Frost, pinch him, freeze him. Robbers meet him, strip him, scourge him, rack him. He starved the Fatherless and made naked the child without a mother.' Even the Worcester correspondent of the orthodox Boston 'Centinel' complained that 'as soon as one bubble bursts another is blown up' and 'we are in the way of becoming the greatest sharpers in the universe,' all 'assuredly anti-republican.' When a town

[5] "Jefferson's Works," Vol. 8.

meeting was advertised for Stockbridge, a village wit penciled on the poster the purpose of the conference: 'To see if the town will move to New York and enter into the business of speculation.' While publishing these letters and stories the Federalist organ in Boston did it with the sneer: 'They who are in—Grin. They who are out—Pout. They who have paper—Caper. They who have none—Groan.' "[6]

While the Bubble was in process of expanding, the "New York Daily Advertiser" asserted that Senator Morris would net $18,000,000, Wadsworth $9,000,000 and Governor George Clinton of New York, $5,000,000. The estimates no doubt were exaggerated. So cautious a commentator as Dr. Charles A. Beard surmises, however, that those who eventually exchanged the Continental scrip for Federal 6's, 3's and deferred 6's, realized $40,000,000 over the purchase price. There were millions in it, and Duer, aggressive, British-born, Eton-bred, who had seen service under Clive in India and under Washington, and who had become the lumber king of the Adirondacks, sought his share. He was, without doubt, the greatest Wall Street plunger of his time and he gambled, as plungers invariably prefer, from the inside. In the midst of the early dementia, Colonel Duer and his high-flying squadron of speculators dealt in the public debt and by 1791, when the establishment of the new United States Bank provided new tokens in the shape of bank stock, they were avid and expert. Duer and his associates, the unrelated Morrises; Congressman Wadsworth, Senator King, Brockholst Livingston, a Mr. Hazard, an aptly named mercantile gentleman who was suspected of trading for Senator John Lang-

[6] "Jefferson and Hamilton" by Claude G. Bowers. Boston.

don, a patriot from New Hampshire, gambled on an extensive pattern. Duer had been the principal author of a plan to buy up the $11,710,378.62, owed by the government in Europe. They had hoped to acquire these funds at a heavy discount before word got around that Hamilton was funding at par. They plotted to send Senator King as Minister to Holland, where, they presumed, he could act as purchasing agent for France as well. Duer suggested the Holland mission to King and the Senator fell in heartily. Something happened and the scheme did not carry through.

In midsummer, 1791, Duer organized the first recognizable Wall Street pool. The syndicate in August, set out to corner the stock, not yet issued, of the United States Bank. The attempt was daring. Duer, no doubt, was familiar with stock market operations in London. It is unlikely that they invented a device so technical and risky. Lacking all but the most superficial information on this first corner, we may only guess that Duer detected a sufficient advantage in running up the prices. It is possible that the pool set out to buy control of the public's share in the National Bank stock. By August 8, the pool's purchases were noticeable and its intentions alarmed certain unidentified parties, for we read in the "New York Daily Advertiser" of that date a warning to readers not to sell their bank scrip. The editor asserted that an attempt was being made to buy all the scrip in town. "For this purpose a powerful combination was formed on Saturday night to reduce the price." The first big bears, and it is unfortunate that the records do not reveal who they were, presumably had formed their own pool. The next day the "Advertiser" adopted an even more bearish tone: "The

National Bank stock," it said, "has risen as high, so enormously above its true value, that no two transactions in the annals of history can be found to equal it." Which betrayed a slightly inadequate knowledge of the exaggerations that marked the South Sea and Mississippi Bubbles. The speculative, indeed, were warned of the danger of a second South Sea bubble by "Centinel" in the "Advertiser" and a versifier added this derisive comment:

> "What magic this among the people
> That swells the maypole to a steeple!"

The speculators' war drums rolled about the buttonwood. On August 13, the price of United States Bank scrip reached $120. Duer's pool continued to buy; the bear syndicate, opposing him, if we may judge from the internal evidence, continued to sell. Scrip was arriving by stage, by water and by postchaise from other cities. The wave of selling mounted. Duer absorbed to his limit. The wave swept on and over the first bull consortium.

Mid-August, 1791, marked the peak of the Hamiltonian New Era. "In two or three weeks, stock in the Bank fell from $120 to $74 and 6 per cent government bonds from $130 to $106." [7]

The autumn of 1791 compares to the autumn of 1929. The downward rush of prices momentarily was checked. But by April, when Duer boarded up his windows and announced that he could not pay $3,000,000 in his own bills, the collapse commenced to take on the aspects of the recent deflation, which plunged finally downward in the Spring of 1930.

[7] "The Federalist System" by John Spencer Bassett. New York.

Duer's ruin demoralized New York. He had seemed one of the solidest figures in the provincial town of 35,000 souls. His handsome house stood opposite St. Paul's Church, at Vesey Street, the "upper extremity of Broadway, the utmost limit of the city pavement." [8] A bluff, persuasive man of the world, his dinners were notable, his coach ornate and his wife, Lady Kitty, wore the foot high, inverted-churn type of headdress in vogue with as great aplomb as any matron in New York society.

Wall Street was densely thronged the morning Duer posted his notice at the Merchants' Coffee House. A stunned mob had quickly gathered, plowing through the slush from one mercantile house to another as if to gain ocular evidence of their soundness. The offices where speculators had established themselves to trade in the new instruments of easy money were crowded. Alarmed and profane gamblers jabbered around the little group under the buttonwood. Coaches and sedan-chairs congested traffic in the narrow street. Even the commoner orders, "the poorest women, the little shop-keepers and butchers" [9] stood about bewildered in the street.

Creditors formed a semi-circle outside Duer's shuttered house. Presently the crowd was parted by the resolute figure of Pierre de Peyster, the Tory. De Peyster dismounted from his grey gelding, tossed the reins to a Negro boy and lifting a Moroccan case from a saddle-bag, strode through the concourse up the stoop and hammered loudly with the polished brass knocker. He was admitted. A pale clerk, impressed

[8] "Iconography of Manhattan" by I. N. Phelps Stokes.
[9] *Ibid.*

by his Tory air, led him directly into an inner room where Duer sorted papers. Duer attempted to smile but the smile vanished when de Peyster, turning the key in the lock and pocketing it, unsnapped the Moroccan case and extracted a brace of pistols.

"Sir," said de Peyster, in a lofty tone, "I may as well lose my life as the money of which you have defrauded me. Take your choice of the pistols and prepare to fire, for I am convinced one of us never shall leave this room alive if I do not get my money."

Duer, impressed by his visitor's direct methods, paid.

"The gallant Colonel," wrote an anonymous New Yorker in a letter to the contemporary Judge Thomas Jones, "thought it most prudent to pay the $1,500 and get rid of the Tory." [10]

But if the bold de Peyster collected, the rest of the town did not. All was lost. Other financiers toppled. Walter Livingston, descendant of Robert and member of the great Chancellor's powerful landowning clan, suspended.

Duer fled but promptly was captured at the country house of a friend. Lodged in the New Jail, located in the Common, now City Hall Park, he emitted threats, never consummated, to "tell all." A mob of disappointed gamblers muttered outside Federal Hall, threatening to take Duer out and "tear him piecemeal, and to hang every endorser of his notes if everything is not settled." [11]

The black ruin spread to Philadelphia, at that time the financial as well as the political capital of the Re-

[10] *Ibid.* [11] *Ibid.*

public, to Boston, to Baltimore and to faroff Charleston —a good week's sail.

The newly stimulated commerce of the thirteen former colonies vanished. Ships rotted in the slips, merchants could not procure credit for overseas trade, the infant industries of the land were blanketed in the general despair, and only the shrewdest of the speculators had profited.

During the extraordinarily active market which preceded the crash and persisted for a few months thereafter, the newspapers published stock quotations daily. But when once the water had been squeezed out of the public funds and the bank stocks, and speculation itself languished, the daily press, ever attentive to the interest of the people, omitted the stock list. Not until 1815 did daily quotations again appear. That is one measure of the financial havoc wrought by the first bull market in Wall Street.

But the Wall Street stock broker survived the first panic. The middle man between bull and bear, investor or speculator, he flourished amazingly during the boom. The New York Stock Exchange was founded, insofar as descent can be traced from the vast marble hall at Broad and Wall back to the buttonwood, during the Hamilton-Duer boom, in March, 1792, when twenty-four brokers—as distinguished from the opulent and entrenched stock auctioneers—resolved to have no further truck with the auctioneers and to form a society for commission trading. They were upstarts, very likely, although the record is bare, and no doubt stood in about the same relationship to the merchants of the day as the earliest traders on 'Change Alley did to the great merchants of their London.

The manner of the announcement is in inconspicuous contrast to the present magnificence of the Stock Exchange. On March 23, the "Gazette of the United States" published the following notice: "A Meeting was held at Corre's hotel, on Wednesday last, of the merchants and dealers in stocks, when they came to a resolution, that after the 21st of April next, they will not attend any sale of stocks at public auction; and also appointed a committee to provide a proper room for them to assemble in, and to report such regulations relative to the mode of transacting their business, as in their opinion may be proper." And on May 21 the fledgling Stock Exchange further drew its wraps about itself and "solemnly promised and pledged" not to do business under one-fourth of a point commission and to favor the tenders of its members above all other citizens. Thus the beginnings of the New York Stock Exchange. Twenty-four brokers subscribed to the roll.* The weather-worn pioneer brokers prudently moved indoors in the following year, 1793, when the newly-erected Tontine Coffee House, at the foot of the Street, offered its hospitality.

It would have seemed no doubt extraordinary to any one of the frightened crowd that clamored through

* August H. Lawrence, who lived at 132 Water Street; Leonard Bleecker, 16 Wall Street; Hugh Smith, Tontine Coffee House; Armstrong & Barnewall, 58 Broad Street; Samuel March, 243 Queen Street; Bernard Hart, 55 Broad; Alexander Zuntz, 97 Broad; Andrew D. Barclay, 136 Pearl; Sutton & Hardy, 20 Wall; Benjamin Seixas, 8 Hanover Square; John Henry, 13 Duke Street; John A. Hardenbrook, 24 Nassau; Samuel Beebe, 21 Nassau; Benjamin Winthrop, 2 Great Dock; John Ferrers, 205 Water; Ephraim Hart, 74 Broadway; Isaac M. Gomez, 32 Maiden Lane; Gulian McEvers, merchant, 140 Greenwich Street; G. N. Bleecker, 21 Broad; John Bush, 195 Water; Peter Anspach, 3 Great Dock; Charles McEvers, Jr., 194 Water; David Reedy, 58 Wall, and Robinson & Hartshorne, 198 Queen.

Wall Street on the day Colonel Duer fled, incredible even, that well before a century was out, the Stock Exchange would become the chief industry of Wall Street and a vested institution wielding unimaginable power over the life of a continent.

V—THE IRON HORSE

THE Wall Street sired by Alexander Hamilton out of speculation in the public necessity fell again into loose ways in the veritably thrilling '30's. The Iron Horse, which was to conquer the continent within a lifetime, had come from England to contrive an incalculable economic revolution. An infectious, characteristically American expansiveness keyed the period. Speculation in money, in land, in stocks and bonds developed into what was to become increasingly identified as a mass mania.

Inveterately chancy, always on the predatory side, Wall Street, promptly took to gambling on a wide scale. Canals and the railroad, durable friend and mainstay to Wall Street for a century furnished the counters as Hamilton's National Debt tokens had done in 1790. The railroads, which swiftly would expand the Republic and provoke a myriad woes for the plodding refugees from seaboard civilization who spread out along the spidery iron highways, were to enrich Wall Street over and over. Indeed, it is accurate to say, contrary to the convention sedulously asserted by the Stock Exchange, that the railroads—furnishing as they did a limitless supply of equities for the gamblers, an immensely valuable trade for the bankers and justifying the Stock Exchange's pretense of utility—financed Wall Street rather than the reverse.

The plain fact is, as anyone may determine by a

study of the record, that the people financed the railroads, through Congress, through State legislatures, through county boards and city councils, and through eager public subscription. A surplus of income in England during Victoria's early reign irresistibly pressed on Wall Street for investment. English gold laid many a hundred mile of rail across prairie and mountain; and the very irresistible nature of these overseas funds stimulated roguery among railway promoters as much as it helped lay a solid basis for the American railway empire. "American railroads up to 1880 were largely built with public money. Federal, state and municipal governments contributed $7,000,000 for railroad construction and grants of 155,000,000 acres of public lands—an empire of 242,000 square miles, larger than France and four times the size of New England. About forty per cent of the legitimate construction costs were paid by public money. If profits on the sales of land received from the government are added, the whole cost was borne by the people in the shape of government aid. This undoubtedly facilitated railroad construction, but it also encouraged speculation and plunder." [1]

Wall Street's share in financing the railroads, from the day in 1830 when a somewhat skeptical Stock Exchange committee listed shares in the Mohawk & Hudson until the end of the last century, seems now to have been parasitical rather than constructive, and the evils which beset the great carriers until this time appropriately may be laid at Wall Street's door.

The notion is absurdly futile, but it is a harmless exercise in imagination to wonder what course American development would have taken had a firm, far-seeing

[1] "The House of Morgan" by Lewis Corey. New York.

imperial mind ruled Washington and communicated its wisdom to state capitals to the end that the people's treasure lavished on the railroads might have been retained for common profit. Leopold in Belgium, the pragmatic French Republic and the German states built railroads and held on to them. Only in England and in this country, dominated by the "rugged individualism" of newly empowered capitalism, did the opulent gift of Stephenson become a source of scandal and outrage and an enduring social problem.

In 1837, the history of the railroad was yet to be written. And in 1837, a year which opened under the kindest auspices, a year in which, unobtrusively enough, a shy princess, Alexandrina Victoria, would mount the throne in England for a surpassingly prosperous reign, the first great storm whose thunderheads would proceed from the railroad, broke over Wall Street.

The melancholy tread of apprehensive merchants, gamblers and plain depositors, a sound soon to become periodic, rang in the wretchedly paved highway. Mercantile houses went down actually like ten-pins. The banks refused to pay in hard coin. Mobs forming in City Hall Park, infuriated by skyrocketing food prices, looted two flour warehouses, foolishly spilling barrels in the street. The "madness of the people" was only subdued by the hearty maces of Major General Hays's "Clubadiers." For a week after the banks suspended specie payment, the tiny, shaded street between Trinity and the River was deserted as any Main Street on a week day. Banks and mercantile houses were boarded up behind their stone stoops. In Pearl Street, the sidewalks were bare of the customary stacks of packing cases which testified to a flourishing import trade. "The

volcano has bursted and overwhelmed New York; the grandeur of her merchants is departed." Philip Hone, pursy, class-conscious, indefatigable diarist, wrote that despairing epitaph on May 10.

Wall Street had not indeed been as desolated since the collapse of Colonel Duer obliterated the Hamiltonian New Era. The pockets of the town, a rising provincial metropolis which with its 300,000-odd souls had begun during the railroad boom to take on grand airs, were thoroughly shaken out. Building stopped as if by a dictator's command. Lots up around 100th Street which had sold for a high as $180 went begging at $50. Twenty thousand heads of families, accounting for perhaps a third of the town's dwellers, were idle and hungry. Food prices were exorbitant, the celebrated Hudson River shad, by ordinary a cheap item of diet, sold that year for 75c and a dollar per fish. Prime beef got up to 18c; flour reached $15 a barrel.

The prudent warm-heartedness demonstrated by Wall Street with its Prosser Committee and Gibson Committee in the 1930's had not been mobilized in the 1830's. In the Five Points district, squalid and unutterably wicked, perhaps for lack of other diversions, people openly starved. So they did in the old Fourth Ward over by the East River. The rich, as usual, suffered "psychic damage." Small wonder that the following placard was extensively posted through the "upper wards" during this time: "Bread, Meat, Rent, Fuel—their prices must come down. The voice of the People Shall be Heard, and Will Prevail. The People will meet in the Park, rain or shine, at four o'clock on Monday afternoon to inquire into the cause of the present unexplained distress, and devise a suitable remedy.

All friends of humanity, determined to resist Monopolists and Extortioners, are invited to attend."

Throughout this year, which saw the retirement from the White House of Andrew Jackson and the inauguration of Martin Van Buren, the aristocrat from Kinderhook, the vital and ornamental processes of life went on in the metropolis very much as usual. Children were born, the ailing and the aged died, the sexes mated, the clergy exhorted, the studious were graduated at Columbia and New York University, citizens debated the opposing principles of Whig and Jacksonian democrat, Ellen Terry made her debut here, the exiled Prince Louis Napoleon Bonaparte took the air on Broadway and dined in the best houses, Captain Marryat, author of "Midshipman Easy," arrived for a visit as did Mr. Webster; Wallack presented "The Rivals" at the National Theatre, the black comedian Rice returned from a triumphal season in London as did also the American tragedian Edwin Forrest, two great trans-Atlantic steamships were launched, Washington Irving published "The Adventures of Captain Bonnyville," Charles Dickens's "Pickwick Papers" and Harriet Martineau's "Society in America" were received by packet; a mass meeting of citizens in Clinton Hall subscribed $1,200,000 with which to complete the New York and Erie Railroad.

And out of it all, the panic, misery, the collapse of fortunes in New York and throughout the sturdy Republic, emerged a singular figure—Jacob Little, the first big bear, the first wrecker of values in a long and virulent tradition. The panic beggared the backwoods metropolis; it enriched Jake Little, the Little who invented, so far as this market is concerned, the formula

of short selling, the Little who sold Delaware & Hudson Canal, soundest stock on the list, at 100 in December, 1836, only to pick it up at 50 in May, 1837.

Jake Little rode out the storm. He was short of Delaware & Hudson, Mohawk & Hudson Railroad, Morris Canal and the sounder bank stocks, when they collapsed. He was long when Delaware & Hudson rose spectacularly on May 10 from 50 to 67; Morris Canal from 30 to 50. Whichever way the market jumped, Little, like a cat, was one jump ahead.

The New York Stock and Exchange Board, the title which had evolved in 1817 to cover the operations of the successors to the twenty-four buttonwood immortals, had been burned out along with the vastly more important commodity markets in the great fire of 1835, which destroyed the Merchants' Exchange building at Wall and Hanover Streets. The brokers, in beavers and stocks, were meeting somewhere that year but the exact location is not a matter of agreement. Presently they were to gather in Jauncey's renovated hay loft and in 1842 they would be trading in a hall of the new Merchants' Exchange which stood on the site now occupied by the National City Bank. Curiously as it might strike a governor of the New York Stock Exchange circa 1932, a complete guide to the town's ramified interests in 1837, "New York As It Is," neglected to mention the New York Stock and Exchange Board. Thirty pages of business listings included the offices of banks, insurance companies, trust companies, sixteen railroads, canal and ferry concerns, two gas lighting companies, one land, one lumber, one fur and one iron corporation—but no Stock Exchange. A similar eclipse shadowed the stock market in 1840,

when, with finance prostrated, the Exchange suspended and many Wall Street men doubted if it ever again would be reopened.

The first corner of which any record exists in securities took place two years before the panic. "The first remarkable operation in stocks was the pioneer Morris Canal 'corner' of 1835. A clique in New York and Newark bought up all the stock of this company secretly at from thirty to forty per cent below par. Then they bought all the stock that anyone would sell for future deliveries. Their 'corner' was not in sight, at first, but as the time for deliveries grew short, the price of shares went jumping up sharply to 150, at which price the holders mercifully arranged to settle, taking a profit of considerably over one hundred per cent." [2]

Jake Little, as the pioneer Big Bear, and hence the model of later fabulous figures in Wall Street, needs to be sized up here. A lean and hungry individual, Little; about whom, apart from his uncanny skill in marketing the distress of others, scarcely anything remains. He was a mathematical shark, a lightning calculator, and not at all the kind of man you would choose as a dinner companion. A vague man, seemingly abstracted unless a sharp trade appeared somewhere about. An untidy man, in conspicuous contrast to his foppish colleagues, with their gold canes and smooth hats. A long nose, smelling out the distress of a merchant who needed to liquidate. Bloodless, thin as a rail, shoulders sloping, he indulged neither in the carnal vices of the period nor the rhapsodic release of piety. "The only thing remarkable about this gentleman is his extraordinary appetite,"

[2] "History of New York Stock Exchange" by H. G. Hemming. Albany.

an anonymous contemporary wrote of Little, "for he has been known to gorge and digest more stock in one day than the weight of the bulk of his own body in certificates." Unlike most of his amiable, careless, masculine, hard-drinking, vain fellows, he wore no beard. His eyes, deeply set, gazed out over a world of decimals and columns of figures. He was said to have a "faraway" look, as a man might who was computing percentages, oblivious of the human scene.

A customary posture of Jacob Little was to stand, head thrown forward, eyes unseeing, his left thumb hooked in his vest arm hole, saying practically nothing except when he saw a trade.

He thumped no heedless mugs of ale in the taverns; he racked no sleek bay in the Sunday afternoon promenade on Broadway; he squired none of the town's impudent belles; he thrust his long nose into no reforms, nor carried the torch in political parades. So far as his business associates knew, he indulged in no wenching in the rustic retreats of Murray Hill; the nervous joys of Madame Rosanna Townsend's "arcana" of the flesh at 41 Thomas Street failed to entice Jacob Little. Little, who set the mold which stamped Dan'l Drew, Jay Gould, Woerishoeffer, William Travers, Jim Keene, Jesse Livermore, Percy Rockefeller, Ben Smith and William Danforth, to list a few of the big bears, was a "new man" on the Stock Exchange in 1837. Within a few years he was to be worth a million, an enormous sum at that time. He was to fail four times, the last collapse when the wily Drew took his measure. He arrived in 1837 and so also did August Belmont, founder of the line of bankers, sportsmen and good-livers, which flourishes still. The first Belmont migrated from Havana

to take over the Rothschild agency from Jacob and S. Josephs, whose inability to pay outstanding notes worth $2,000,000 precipitated the panic. Curiously, a new jerry-built five-story granite house which the Josephs were building on Wall Street tumbled the Monday before they announced their failure on Friday. Sober citizens complained during this boom that all the magnificent five-story business houses were being flimsily built, an outgrowth no doubt of the easy money carelessness which marked the period.

What caused the financial structure of Wall Street to sag and finally give way in 1837? English gold, fed into the American market by George Peabody, quaint Yankee humanitarian and consummate banker and the several other American banking houses in London seemed inexhaustible. Although the oldest railroad was barely seven years old, 1,447 miles of rails had been laid, the strategic cities along the seaboard were connected and roads projected in every direction. Unimaginable sources of wealth were being tapped. By means of the railroads, Mr. Van Buren's inaugural address had been relayed from Washington to Boston in the unconscionably brief time of twenty-four and one-half hours. A rich and genial epoch of prosperity and well-being would appear to have been ushered in by the Iron Horse. And yet on the threshold of the railroad era, which was to enhance the wealth of the civilized parts of the earth by many billions, the inadequate credit stamina of Wall Street was to be overtaxed and the country plunged into economic gloom.

The broad general answer is that the financiers, dubiously intelligent fellows, failed then as they did a century later to understand the nature of credit and the

natural limitations of its use. The states—recently the object of a plethoric endowment by Jackson when, in 1835, he extinguished the National Debt devised by Hamilton as a unifying, plutocratic implement, and distributed $28,000,000 to the treasuries of the commonwealths—loaned their credit prodigally to railroad promoters. Congress exempted railroad supplies from import duty. Associations of citizens, manufacturers, bankers, subscribed with avidity to bonds and common stock issues. A New England clergyman adjured his flock to invest in a road from Boston to Worcester. Counties gave land grants and stone, gravel and earth to glib magicians who promised the boon of quick and easy transportation. The farmers between Elmira and Corning offered teams and the labor of themselves and their hands to dig cuts and raise embankments for that section of the Erie. The early railroad builders went about their tasks in the glamour of a secular crusade. The result was "a fascinating mixture of magnificent enterprise and downright thievery" on the part of the builders.

The Twentieth Century man needs to draw on his imagination if he would appreciate what the Iron Horse meant to his ancestors a bare century ago. This is no doubt an age of wonders, but the wireless and the airplane are in contrast to the locomotive commonplace, if spectacular, extensions of existing services. The locomotive was revolutionary in the exact sense of the word. Whereas the airplane fits wings to man, already mobile, the locomotive lifted his feet out of the impeding mire of the centuries and quickened life in a way scarcely understandable now. When George Stephenson caused his fancy, adapted stage-coaches, to be rolled

through a tunnel in Liverpool on to the Manchester tracks and with the oaken Duke of Wellington as patron hauled four train-loads of curious notables the length of his railway, he undubitably cranked the wheel for what is known as the industrial revolution. That was on September 18, 1830. He furnished a vehicle which united both shores of this continent into an economic whole, he changed the face of the earth more drastically than the anonymous inventors of the magnetic compass altered the oceanic bondaries known to medieval Europe, he made waste-lands to bloom and he, quite incidentally, furnished Wall Street with a means of sustenance and refreshment for a hundred years.

What an extraordinary extension of human power! Stephenson, by a process of experiment and the exercise of poetic imagination, divined the virtue of a multitubular boiler and an escape-valve on wheels. Presently the cumbersome little implement, which seems ludicrous to modern eyes when displayed on a gallery at Grand Central Terminal, was crawling over the face of western Europe and North America, hauling vast loads of produce which previously would not have been worth the planting or sowing, the delving or the fabricating. Not since paleolithic man first sharpened a tool with which to dig in the earth or to cut the veins of his prey, had man advanced in so great a bound. Before the locomotive, the American states flourished precariously on the wooded foreshore of the continent, along the navigable streams and, quite lately, the banks of grand trunk canals. In the marvelously productive hinterland, grain, timber, hides, meat, metals, flax, etc., remained perforce in the neighborhood where they were produced. A barrel of flour could not be hauled

many miles by horse-team before the cost of transit outweighed the market value of the staple. Only valuables of small bulk, such as furs or precious metals, could be carted over the mountains or along dirt roads to the market-place profitably. Man was limited, partially chained to the soil. The locomotive changed that. Commerce, which had been based on want, floriated, moved in the direction of plenty. The valuables of a continent became straightway movable; the back-breaking labor of transportation was in a large measure eased.

Charles Carroll, of Carrollton, white-haired relic of the Continental Congress which formulated the Declaration, drove the first spike in the Baltimore and Ohio railway on July 4, 1828. Two years later the Mohawk and Hudson Railroad Company was listed on the New York Stock and Exchange Board. Within another year the London Stock Exchange had listed a half-dozen American railway securities for trading. For two generations the section devoted to Yankee rails on the foremost world exchange in Capel Street, London, would afford a sporting outlet to the speculative fancy of rich Londoners. On the 28th of August, 1830, a dinky engine designed by the eccentric Peter Cooper, New York hatter and philanthropist, the Tom Thumb, would actually pull a train of one car loaded with directors over the Baltimore and Ohio from Baltimore to Ellicotts' Mills and return, twenty-six miles in all. And a "gallant grey" owned by the firm of Stockton & Stokes, stage-coach proprietors, successfully would challenge the speed of Tom Thumb. In 1828 the national Chamber of Commerce, had there been one, could have boasted of only three miles of railway. In 1837 the

mileage had increased to 1,417. Twenty years later it was more than 24,000 miles. And within two generations after Carroll of Carrollton drove the famous spike, this country would possess more miles of steam highways than all Europe.

Here we are then, in the year 1837, with another New Era tumbling about the ears of Wall Street and the American people. Why did the panic of 1837 clap down on a society expanding benevolently before the thrust of the greatest technological advance since an ancient and speculative fellow devised the first wheel? A devotion to gambling undoubtedly lay at the bottom of this panic. But the causes are not easily decipherable. Sheer manipulation of the plenteous bonds issued by the states to finance railways accounted for part of the dislocation of capital; inordinate speculative purchases of western land, which under Jackson's ukase of 1836 demanded hard money, for another. Old Hickory's banking policy, his antipathy to the entrenched Second Bank of the United States, his patronage of the so-called "pet banks" which issued notes more or less recklessly, bear shares in the responsibility. Contemporaries among the "monied interest" assessed all the blame against the state banks of issue, charging them with a gross inflation of currency.

Belated and hence soberer judgment finds that a general overweening spirit of speculation induced by the magical promise of the Iron Horse, must bear the major blame for the panic of '37—the first really devastating commercial stress visited upon the New World. "The industrial and financial interests accused the Jacksonian democracy of causing a panic by its attack on the United States Bank in particular and financial

institutions in general, but in reality the panic was caused by frenzied speculation, unregulated industrial development, incompetent (and often dishonest) banking, and, according to a contemporary business journal, the 'desire of gain at the expense of individuals and the public.' "[3] And a crop failure demoralized exports in the fall of 1836.

In short, irresponsible traders in Wall Street gambled in the common stocks of the railroad and canal companies, the states overburdened themselves with bond issues which found a ready market in Lombard Street; the overplus of British income, irrepressibly finding a new and enticing market, expanded the spirit and cupidity of American finance and led the way into the first of the excessive speculations which devolved on the enormous new values created by the Iron Horse.

Lombard Street reached out for any kind of corporate stock based on internal development, promoters were induced to over-extend and the stock market, virtually quiescent since the great depression of 1792, was stimulated into new and demoralizing activity.

The implications ran along. Four years later nine states suspended interest payments on their bonds and three repudiated their pledges.

The New York of the period only dimly sensed the causes of its disaster. Recreating itself at the nine theatres which lined lower Broadway and the side streets, enchanted with the transplanted vaudevilles at Niblo's Garden, the better orders diverting themselves at fete champetre on the Elysian fields above Hoboken in the summer months, the rising town did not pause to decipher the sources of its embarrassment. It satisfied

[3] "The House of Morgan," by Lewis Corey. New York.

Philip Hone, for example, grumbling over the novel fact that the rates of money had become established as merchandise in the same way as a beef or a bolt of silk, to charge old Jackson, who had retired to the Hermitage with all the responsibility.

John Jacob Astor—Yon Yacob Ashdour as he himself spoke it—left no memorabilia reflecting his notions about the panic of 1837. The richest man in New York, Astor approached senility at that time without seeing abated the acquisitiveness which made him at once the marvel and the horrible example of his period. He had completed the imposing Astor House, the five marble floors of which rose above Broadway, north of Vesey Street and St. Paul's Chapel, as a memento of his grandeur designed to stand for centuries. The first plutocratic Astor said nothing and picked up first mortgages at a song. "He added immensely to his riches by purchases of state stocks, bonds, and mortgages in the financial crisis of 1836-37. He was a willing purchaser of mortgages from needy holders at less than their face; and when they became due, to foreclose on them, and purchase the mortgaged property at the ruinous prices which ranged at that time." [4]

Old Astor, complaining about the ruts in Broadway jostling his carriage on the way from his town house to his country seat overlooking Hell Gate, did right well on the distress of his neighbors. His latest biographer, Mr. Arthur D. Howden-Smith, wrote: "I should hesitate to estimate his profits during the panic. They probably ran into the millions, for the complete collapse of the banking system put practically anyone at his mercy."

[4] *The New York Herald,* March 31, 1848.

In that year the City Council, invariably susceptible to the needs of the people, lighted the dials in the City Hall clock tower.

And in another few years Wall Street, graver but not wiser, had been redeemed from its fall by the industry of the merchant, the mechanic and the farmer, but, principally, though a renewal of the import of English capital—the most significant factor in our financial affairs during the middle years of the Nineteenth Century.

English gold created the new market in this country that pulled us out of the first railroad depression.

VI—THE WESTERN BLIZZARD

THE Western Blizzard—a name applied by an ironical Wall Street to the panic of '57—howled and blustered down that narrow lane on October 13. Blowing a clean swath through the country's toplofty credit, it upended banks and solid merchants. It whipped the rigging of steam packets laden with yellow bullion from the Sacramento for the greedy banks of London.

The rising town of New York, grown tall on seven jaunty years of California gold, bent under the blizzard's blows. Again, Wall Street surged, curb to curb, with the army of the disappointed. Unhappy speculators, now beggared; luckless depositors, usurers, ruined merchants, with chimney pot hats awry, feverishly hurrying brokers' clerks, profane scamps, timid and respectable ladies. The city watch, at this late date uniformed and armed with maces, kept the peace. There was no need for Major General Hays' "Clubadiers."

But the blizzard did more than momentarily to wreck Wall Street's credit towers. It did more than to grip New York with one of its periodical money spasms. The raging wind tossed the aged David Leavitt out of the Wall Street scene and, passing, deposited Daniel Drew—the most pious rogue who ever descended from York State on the metropolis—to plague the republic's finance for twenty years.

Here again we had the storm clouds unobservedly

"making up" over a fair and prosperous landscape. Good times, as is self-evident, are the necessary precursor to a panic and subsequent depression. The decade opening the second half of the Nineteenth Century began its course under the blandest auspices. In the 1850's, the pale and dutiful Prince Consort dedicated a mammoth exposition of man's ingenuity in a great Crystal Palace set in the heart of Hyde Park. Britons from all parts of the Empire, enchanted by the fantastic "twittering of sparrows upon the live trees, enclosed within the erection," marveled at evidences of Yankee inventiveness. Mechanics looked with awe on an exhibit displaying the one hundred-power tools devised to shape interchangeably the parts of a Springfield rifle.

Industrial standardization had set in, the factory system already had shown its value to the mercantile plutocracy as a mine of profits; developing capitalism would not be far behind. Between 1850-1860, the iron works and textile mills of the republic increased their capacity by sixty-five per cent. This was due more to Yankee inventors, few of whom realized a return on their aptitudes, rather than to an increase in the capital structure of young industries. Industrial management had advanced in this country beyond the technic of England, seat of the industrial revolution. Our factories were ahead of the Old World in the use of automatic power machinery and standard tools.

Railroad building proceeded at a progressively rapid pace. In 1851, the Erie, whose sanguine promoters in 1832 had put the total cost of building at $3,000,000, finally was opened from the Hudson to Lake Erie at an accumulated and grossly wasteful outlay of $50,000,-

000. The Illinois Central promoters received the first of the enormously prodigal Federal land grants. Trains were steaming along the all-Ohio route of the Cleveland, Columbus & Cincinnati, later to be the Big Four.

In 1828, three miles of iron shod rails were laid on stone sleepers. In 1837, 1,417 miles of railroads. By 1857, 24,476 miles—measurably more than all the rest of the world put together.

Throughout the 1850's until '57, times were indeed piping. In Wall Street, a new bank saw the light of day for each month in the year. The yellow metal of the Sacramento, moving in a long train from John Augustus Sutter's pastoral empire after 1848, poured into the Street at the rate of $50,000,000 a year. New York had risen into a cosmopolis of 650,000 souls, humming with thousands of small manufactories, equipped with gas lights, horse cars, its docks ceaselessly laden with a foreign commerce, in and outbound, exceeding $300,000,000 a year. A real estate boom tempted the prudent Wendels as far north as Thirty-ninth Street and Fifth Avenue where they built a gaunt red mansion to be known years later as the "House of Mystery," and persuaded a far-seeing prelate to lay the cornerstone for St. Patrick's Cathedral at Fiftieth Street and the Avenue. Not quite so far uptown, Samuel B. Ruggles, an innovating city planner, had imposed his geometrical notions of urban beauty on a square to be known as Union and a park to be called Gramercy. The soiled and haggard patriots who welled up out of the Five Points and the Bowery to defend true Americanism against the diluting influence of the English tragedian Macready's pawky "Macbeth" had been bloodily subdued by the militia. New York, the

financial center, the preeminent port, and the proudest metropolis on the Continent stirred with vast energy. Likewise, the hinterland, northeast, west, and south. The slave-holding aristocracy prospered unassailably, as it seemed, although a good bit of incendiary talk by certain pesky radicals went on in Boston meeting houses and "Bloody Kansas" showed, as usual, signs of abolition restiveness. The small grain farmer of the West gratefully reaped his acres by the aid of Cyrus McCormick's labor-saving binder. Factories, no longer dependent upon canals for transportation and waterfalls for power, appeared over night along a thousand railway sidings in a thousand cities, towns, and villages in the Central West. The railroads, the seven-league boots of the industrial revolution, had performed this special sort of white magic.

Beneficiaries of Yankee inventiveness, the factory system, enhanced land values where the railroads went and the increased productiveness of the farmer, imported foreign luxuries until their somewhat circumscribed tastes were satisfied, then poured their surplus income into Wall Street. The heyday of the railroad promoter, progenitor of the banker who reorganized and merged industries in the Twentieth Century, was in its bright forenoon. Horny-handed swindlers, more often than not reeking of the barnyard, lusty visionaries who saw a pot of gold beyond the county line, descended on Wall Street as a plague. Did Wall Street, in self-conscious rectitude, demand their bonafides, skeptically appraise their titles and contracts? It did not. The profits of an industrious country were demanding investment in the imperative fashion of idle wealth. Credit became, so to speak, the cheapest commodity in the land

and the banks and the stock market operators and the brokers, dealers all in one way or another in credit, acted as merchants usually do with a surplus on hand. They pushed it out, irrespective. The stocks and bonds of railways, by all odds the most attractive and numerous listings on the Stock Exchange, were in for a boom. The boom reached its apex in January, 1857. In that month, William R. Travers and Leonard W. Jerome, two of the most celebrated operators of the time, prematurely took the bear side. New York Central, a road which followed a rather serpentine trail between Albany and Buffalo, sold at $95 a share. Erie reached $64. Jerome and Travers sold short, breaking the market slightly, but the tide of agricultural and industrial prosperity still flowed too strong for them. The bull market of what we may call the Franklin Pierce New Era, labelling the period by the name of the current President, had proved too potent for Jake Little, first big bear, only a little while before. Little, too, misjudged the driving power of the New Era and sold short in the Autumn of 1856. The odd, reclusive Little failed on December 5 for $10,000,000 in the midst of a buoyant market.

Storm clouds were not generally visible during the early part of the year. "Up to August, 1857, our commercial affairs were generally prosperous. The local journals throughout the country represented business as in a wholesome condition. High prices were said to have enriched the farmer, the stockgrower and the planter. Trade and mechanical industry flourished with corresponding success.

"In estimating probabilities for the future, great stress was laid on the fact, that the madness of railroad

building was arrested. The bond market, and with it improvement securities generally, had fallen into disrepute. Stock companies could no longer send an agent to Europe with five millions of credit tokens, and receive the money for them within sixty days from the engraver's press. Heavy financial negotiations in this direction were suspended; and although the country had several hundred millions of foreign capital in use, there was no danger of any considerable portion of it being recalled, since our home market would reject the bonds which represented it, at half the par cost. We might, therefore, continue to enjoy the use of this large capital, and avoid the disaster consequent on a further manipulation of foreign debt. The common sentiment was, that we had passed the dangerous point in railway credits, and with the immense projects of the year at our doors, there was little probability of serious financial disturbance and the most sagacious of our city bank officers saw no indications of an unusual storm in the commercial skies." [1]

The black magic of credit still conjured talismans and glamours; still was potent to ward off hoodoos. The currency defects which aggravated the panic of 1837 had largely been rectified. New York banks, in whose charge was concentrated one-fifth of the country's money resources, had learned from the blighting experience of '37 to avoid the seductions of unconstrained banknote issue. They were not, however, so well fortified against the more novel temptation of creating credit by engraving common stock certificates. That recent device, plus gold, plus the geometrically progres-

[1] "Banks of New York and the Panic of 1857" by J. S. Gibbons. New York.

sive productiveness of the toilers, convinced the financiers that here indeed was a New Era in which prosperity stretched out endlessly. Hard-headed, as financiers are said to fancy themselves to be, they believed the day of reckoning had been miraculously elided from the calendar. The public gathered about the Stock Exchange, housed in a ratty building on Lord's Court, entered from William and Beaver Streets and Exchange Place, drawn irresistibly by the magnet of easy money. Again, as on so many other occasions before and after that date, Wall Street combined the most exciting features of a gold rush, a land boom, and a casino on the Riviera.

The New Era reached its disillusioning end in August when a staunch western corporation, the Ohio Life and Trust Company, which had a general banking business as well, failed for $5,000,000. As if it had been the keystone of the arch of credit, the Ohio Life collapse weakened every banking and mercantile house in Wall Street as well as in the country. Prophets of the New Era were, as usual, dismayed. Runs were started on other banks and the bankers in a not uncharacteristic panic indiscriminately called loans. The credit structure thus felt an immediate contraction. Other houses failed and on October 13 eighteen banks in New York locked up their gold and refused to pay out specie on demand. Every solid bank in Wall Street suspended, except the Chemical National. The stock market reeled. Prices fell away as disastrously as in the Autumn of 1929. Erie, which had been selling for $64, slumped to $18; New York Central, standing at $95 in January, declined to $53.

On October 15, two days after Wall Street had been

an angry welter of the disappointed, Horace Greeley, "the man of the white hat," scolded the common people, somewhat inappropriately, for the indiscretions which created the New Era and as inevitably obliterated it. Twenty-thousand working men in New York, by way of passing comment, had lost their jobs since Ohio Life went into bankruptcy. Greeley, lifting his cowlash in the "Tribune," wrote: "The loafers in 10,000 barrooms who are today cursing the banks as broken, have themselves caused whatever there may be of bank insolvency by buying food and clothes for their families at the neighboring stores and not paying for them when required."

With however great or little accuracy Mr. Greeley diagnosed the situation, the devastating results of the Western Blizzard were recognizable to all. "It was worse than 1837; the distress in all manufacturing towns was 'absolutely sickening.' Again unregulated industrial development, overbuilding of railroads, frenzied speculation in western lands and financial mismanagement, reaped the whirlwind of business disaster." [2]

"Harper's Weekly," illustrated and sardonic, carried a picture of the Western Blizzard's havoc to the countryside in image and prose. Explaining a sketch of Wall Street, October, 1857, "Harper's" said:

"Those who are familiar with the scene will have no difficulty in identifying the leading characters:—The Jewish capitalist whom even United States and New York State stocks will not tempt; the lender on usury, to whom hard times are seasons of peculiar profit and pleasure; the broker who allows himself ten minutes to

[2] "The House of Morgan" by Lewis Corey. New York.

pick up as many thousand dollars at a quarter per cent a day, and who does it; the despairing merchant; the victim of an unexpected failure, and the other essential personages of a Wall Street scene.

"Our friends in the country will need a powerful imagination to realize a panic in Wall Street. How the sky, serene so long, begins to lower and threaten; how the Daily Croaker gloats over the prospect of misfortune while the Daily Blower falls foul of banks and bankers for not lending more freely; how steamship after steamship sails out of port with boxes of gold dollars, and Snooks, the grocer, quakes behind his counter as he reads of the fatal shipments in his paper; how the banks which have trampled tempestuously on the Croakers and sworn by the Blowers for weeks and weeks suddenly change their minds and begin to curtail; how Smith & Brown, the great merchants, are thrown out of bank and are glad to go to Greedy and get shaved at 2 per cent a month; how Greedy, elate at the transaction, refuses to lend save at usurious rates, and all the other lenders follow his example; how on this a score of minor Smiths & Browns who had relied on Greedy and his fellows find themselves suddenly deserted and incontinently fall; how failure begetting failure and distrust begetting distrust, a period at length arrives when those who have money like nothing so well as to put it in stockings under their pillows at night, while those who want it cannot beg, buy or steal a dollar, and the only people in the community who are safe and happy are those who do nothing, have no business, no notes, no creditors and no debtors, and who might as well, for the general progress, be alanthus trees or Croton hydrants."

Fortunately, the Western Blizzard did not produce

a long term dislocation of industry. The Continent still was too fabulously rich, its resources out beyond the rail heads too gigantic for that. The bungling of financiers, inept in the use of capitalism's novel device, could hamper but not halt the economic conquest of America. "The general expansion of the Continent was all the time providing new sources of wealth, and upon recovery the North American field entered upon a period of prosperous development only postponed by the Civil War which, however, by drawing all energies of the country into other channels, and by rendering at once imperative and easy of imposition restrictions on the allocation of capital prone to investment, absorbed the energies of that part of the world for over a decade." [3]

But recovery did not materialize until the War Between the States created a gigantic and new market to stimulate production and furnish a new use for credit —and new opportunities for easy money to the trader for profit.

Wall Street bankers resumed specie payment on December 12. The Stock Exchange, consolidating its profits as a result of the extraordinary activity during the New Era, increased its initiation fee next year to $1,000 and excluded pushing young fellows such as Henry Clews, who found that "the old fellows were united together in a mutual admiration league and fought the young men tooth and nail, contesting every inch of ground when the young men sought entrance to their sacred circle." At that time, the brokers, dignified as the Knickerbocker merchants themselves, conducted their commerce at tables. They dressed in collars that choked their throats, brocaded vests, skintight

[3] "A History of Financial Speculation" by R. H. Mottram.

pantaloons, and chimney pot hats. They considered it unseemly to announce their transactions until the last call had been made for the day at 3 P.M. Consequently, as Clews discovered, unscrupulous speculators were willing to pay as much as $100 for the privilege of eavesdropping at a keyhole in Lord's Court. Clews browbeat the Stock Exchange into admitting him by advertising to cut the brokerage commissions in half.

The Western Blizzard passed but Drew remained. Uncle Dan'l Drew, one of the Four Horsemen who later were to ride down the Erie; Uncle Dan'l, who wore muddy drover's boots amidst the dudes of Wall Street and whose acknowledged practice of first salting, then watering, the beef "critters" he drove down the Boston Post Road to Henry Astor's slaughter house, lent an expressive term to a vicious Wall Street practice; Two Hundred Percent Drew, who besought the Great White Throne for supernal aid in breaking a corner or looting a railroad; the lanky, illiterate, unconscionable Drew was blown in by the ill wind of the Western Blizzard. "Shrew, unscrupulous, and very illiterate—a strange combination of superstition, faithlessness, of daring and timidity—often good-natured and sometimes generous—he ever regarded his fiduciary position of director in a railroad as a means of manipulating its stock for his own advantages." [4]

Drew arrived and David Leavitt, a symbol of the old order, departed. Leavitt, the Knickerbocker merchant, cautious as to his credits, scrupulous with commitments, a bit stiff, a bit pompous, dining sanctimoniously on Sheffield plate while his apprenticed

[4] "A Chapter of Erie" by Charles F. Adams, Jr. Boston.

clerks chewed husks, and yet strictly obedient to a somewhat confined code of honor.

On the October day in 1857 when all hell broke loose, Leavitt, his greying hair wind-blown, his leathery features drawn in anxiety, harangued a single-minded mob from the stoop of the Merchants' Exchange Bank. The mob wanted its money out of the bank in specie—and that damned quick. Leavitt begged for patience. "If you force the hand of the banks," he pleaded, "they will go to the wall. There isn't enough specie to go around."

"Cripes, mister," a leather-lung bellowed back, "put up or shut up!"

Drew may have witnessed Leavitt's vain appeal on that day. If he did, he saw one of the last of the Old Guard—"old fogys," the late Henry Clews called them in his book, and lived to become a fusty old-timer himself—gallantly ushering out an ancient regime. The rise of the merchant prince had reached its apogee. After 1857 the dominant man in Wall Street would be, due to the attractive embellishments of commerce known as stock certificates, the financier. The solid power of the man who made, grew or traded in bolts of goods, hogsheads of rum, wheat, cotton, tobacco and timber, feeling and savoring the objects he bought or sold, was past. In the new day, the important man would be one who dealt in paper warrants certifying shares in the enterprises which produced or serviced commodities.

On the day of the big wind, Drew busily sold Erie. From January on, he had sold Erie, in the active market at Lord's Court, on a scale down from 60. In October, Drew was buying Erie back. Tapping his way about in the midst of the storm with an umbrella stick which

legend says served him in the place of the gold-headed canes of the tony brokers, Drew that day put by a good-sized nest egg toward the $13,000,000 in cash which presently would make him foremost among the "monied interest" of Wall Street.

Drew had arrived. The natural force known to himself as Corneel Van Derbilt soon would lumber into the Street. The cunning Jay Gould was reconstructing the dinky Rutland railroad in Vermont and the fabulous "Jubilee Jim" Fisk still was huckstering dry goods in New England in a van varnished like a circus wagon.

Wall Street was in for its most sumptuously wicked period. The plunderers were coming, Van Derbilt, Gould, Fisk, and a host of lesser fry, with Drew, forehanded as usual, already on the ground. Scalawaggery on the grand scale, corporations looted, the market rigged brutally—until, in Europe, speculators would ascribe the savagery of Wall Street's operators to a Red Indian influence.

The pretentious Knickerbocker merchant princes, and such upstart retailers as A. T. Stewart, no longer would lord it over the market-place. Such merchants as were adaptable would turn banker. "Most of the important investment houses originated in the mercantile business—the House of Morgan, Brown Brothers, Kuhn, Loeb & Company, J. & W. Seligman & Company, Lazard Freres; and James Stillman, who built up the great National City Bank, started in the cotton merchandizing business. . . . Developing capitalism dethroned the merchant as the aristocrat of business." [5]

The trader in goods was in process of becoming a trader in equities. For a time, the trading interest

[5] "The House of Morgan" by Lewis Corey. New York.

would be overshadowed by the openly piratical, the stock market schemer. And, growing up outside the precincts of Wall Street, in towns and hamlets everywhere, men more socially useful if not ethically more elevated, would be developing the nuclei of the giant trusts of the Twentieth Century. Industrialists who, in their day, lorded it over the credit merchants of Wall Street but who also, in the end, would bow to the gilded money traders.

The technics of modern capitalism were being sharpened in 1857; the means by which the great Morgan would seize command of the economic forces of the country on behalf of the bankers.

But Wall Street yet had to experience the sway of the new pirates.

VII—PIRACY, NEW STYLE

> ". . . Call things by their right names, and it would be no difficult task to make the cunning civilization of the Nineteenth Century appear but as a hypocritical mask spread over the more honest brutality of the Twelfth. . . . Pirates are commonly supposed to have been battered and hung out of existence when the Barbary Powers and the Buccaneers of the Spanish Main had been finally dealt with. Yet freebooters are not extinct; they have only transferred their operations to the land, and conducted them in more or less accordance with the forms of law; until, at last, so great a proficiency have they attained, that the commerce of the world is more equally but far more heavily taxed in their behalf, than would ever have entered into their wildest hopes while, outside the law, they simply made all comers stand and deliver. Now, too, they no longer live in terror of the rope, skulking in the hiding-place of thieves, but flaunt themselves in the resorts of trade and fashion, and, disdaining such titles as once satisfied Ancient Pistol or Captain Macheath, they are even recognized as President This or Colonel That." [1]

THE captains of the new piracy dropped anchor, virtually unnoticed, off a Wall Street grown hog-fat on the War Between the Sections. Hog-fat, and, extending the barnyard simile, hog-wild in a money gluttony matching in clamor the distant clash of arms. Wall Street rioted rapturously, manipulating the national

[1] Charles Francis Adams, Jr., *North American Review*, July, 1869.

debt, financing profiteers in war contracts and, more brazenly, trading at the Gold Exchange, a large and gaudy gambling hell, in the ups and downs of the Union cause. The new piracy, which was to apply the technic of the Spanish Main to the Stock Exchange, enabling high spirited freebooters bloodlessly to board and loot treasure ships in the form of corporations, very likely would have seemed at the moment a pallid device in contrast to the intoxicating joys of the Gold Room.

Cynically articulate, surrounding a Cupid's fountain in the center of the Gold Exchange, brokers executed orders of great nabobs, gambling shamelessly in the national necessities. Just as at the front, where farm boys from New England, Iowa, and Pennsylvania were dying of shrapnel, gangrene, and dysentery, the combatants on the Gold Board relieved their anxiety in song. Unhappy bears joined in "Hanging Jeff Davis on a Sour Apple Tree." A Confederate victory, forcing up the price of gold, would move the bulls, with a wide tolerance for the other side's arms, into a spirited rendition of "Dixie." A Union success brought from the loyal throats of the bears:

> "The stars of heaven are looking kindly down,
> The stars of heaven are looking kindly down,
> The stars of heaven are looking kindly down
> On the body of old John Brown."

Across New Street, the New York Stock Exchange Board righteously frowned upon the gold gamblers. But stock speculators of all degrees did not fail, from McClellan's Penninsular campaign forward, to trade on advance information at every turn in fortunes and without regard for the effect on the Union cause.

Operators maintained an elaborate espionage system in Washington and at the front, subsidizing government functionaries, army officers, telegraphers, sutlers, and others who had immediate access to military news. The pure stream of patriotism besought by Lincoln, vaunted by Beecher and other pulpiteers, invoked by Greeley and lesser pamphleteers, flowed only sluggishly, when at all, through Wall Street. The slogan was business as usual—and the devil take the hindmost.

The scene, in retrospect, is not wholly inspiriting to any apologist for Wall Street who is both compassionate and generous. Two presumably civilized nations were at war on this Continent in behalf of opposed cultures and economic systems. In the North, Father Abraham, governing patiently and jesting bawdily, demanded volunteers and, later, conscripts to support the rising structure of industrial capitalism and to crush, for reasons both pious and practical, the slave power in the Confederacy. Down South, that inexigent Puritan, Robert E. Lee, marshalled the Cavalier in defense of an obsolete, semi-feudal state and a mildly maudlin aristocracy.

In Cleveland, Rockefeller contrived a merger of the Lake Erie oil refineries; a chirrupy telegrapher named Carnegie, having seen to the organization of the Union Government's inadequate wire resources at Washington, returned to western Pennsylvania and the more engrossing task of uniting the purchasing power of the Pennsylvania railroad with certain new steel enterprises; an Austrian immigrant named Pulitzer swam ashore in Boston harbor by night to claim a $300 soldier's bounty for himself, and lived to make a stir in journalism; a glum and somewhat overbearing young

banker, J. Pierpont Morgan, took a tentative "flyer" in gold and helped to negotiate a shady transaction wherein the Government bought back 5,000 rifles, at $22 a gun, which had been sold at $3.50 after being condemned as defective and likely to blow up in an infantryman's face; Commodore Van Derbilt, having browbeaten, blackmailed and bribed his way from ownership of a lone periauger in the Staten Island-Manhattan ferry service to mastery of the American merchant marine, was, as War department purchasing agent, permitting a subordinate to equip the army with moldy transports likely to fall apart in any sea, at scandalous prices.

Wall Street gambled on a grand scale, as completely absorbed in self-interest as the generality of the country's business community. Here the pursuit of easy gain had more fillip; it was infinitely more sensational to engage in noisy competition about the Cupid's bowl than to wangle steel equipment orders from the Pennsylvania railway for a foundry you were privately backing. Hence, it is doubtful if even the flamboyant natures and known cupidities of Corneel Van Derbilt and Dan'l Drew, the major pirates, new style, would have tempted Wall Street during the fabulously acquisitive days of '61 to '65 into prompt emulation.

But here they were, Van Derbilt and Drew, citizens of thriving New York and familiars of Wall Street, uncouth, greedy, and lawless as any Captain Kidd or Pirate Tew stamping the quarterdeck of a Seventeenth Century freebooter, guns unlimbered and ready to board a railway, a utility, or a manufacturing corporation as profitably by use of the Stock Exchange as their spiritual ancestors had encompassed merchantmen by means of roundshot and cutlass.

Van Derbilt, Great Bull, and Drew, Big Bear, were about to tack the Jolly Roger to the forepeak of Wall Street.

What the Captains-General of all the buccaneers brought to Wall Street was a wholly new method of getting ahead and acquiring power. Hitherto, the Stock Exchange had served the monied interests primarily as a gambling convenience. Through its facilities, Hamilton and certain of his successors had been able to market, and make less odious, a national debt. Promoters, principally of railways, had used the market to realize cash on paper profits. Wily traders, such as Jake Little, found it easy to incite mass gambling through manipulation and to the benefit—a condition existing even unto this day—of the insiders. The bankers found the bond annex of the market useful in keeping their assets fluid. But the principal charm of the Stock Exchange lay in its ready adaptability for gambling within the law; a situation which moved the plain-spoken Charles Francis Adams, Jr., to exasperation.

"Gambling," he wrote, "is a business now where formerly it was a disreputable excitement. Cheating at cards was always disgraceful; transactions of a small character under the euphemistic names of 'operating,' 'cornering,' and the like are not so regarded."

The new pirates were about to expand the usefulness of the Stock Exchange. They were about to show how it was possible to acquire corporations, oftentimes the fruit of public grants, and always the product of the ingenuity, the toil and the thrift of many persons, in ways sometimes strange and devious, sometimes bold. They arrived at an appropriate juncture. Oddly, and

to the amazement of Europe, the North waxed fatter and fatter, putting to the plow more and more virgin soil in the Mississippi basin, reaping increased surpluses of grain, extending the rail service that mobilized men and goods towards Appomattox. The North was rich, disorganized economically, and bewildered about the future.

The "gaunt, dyspeptic, foul-mouthed, egotistical" [2] Van Derbilt and the weasel-like Drew would not be omitting to take advantage of times so disjointed. Each was money-hungry, each objective, each as thoroughly acquisitive as any healthy primate. Yet, it is likely they stumbled on rather than devised the somewhat revolutionary methods of the new piracy. Neither was an innovator. Drew, as Big Bear, copied the sly, mathematical Jake Little. Twenty years before, the astonishing George Hudson in England had formulated the first rail combines and reigned spectacularly as the pioneer railroad king, controlling the Midland, the Eastern Counties and other sizeable trunk lines, although he perished in disgrace. Hudson supplied Van Derbilt's pattern.

In any event, the adversaries, in 1863, while the gutters of New York literally ran blood and "more than a thousand" embattled proletarians, police and soldiers died in the New York Draft Riots, introduced the new piracy and began a series of earth-shaking tussles for control of the rail arteries to the Great Lakes that convulsed Wall Street for nearly ten years.

Van Derbilt and Drew differed in method as chalk and cheese. The Commodore foamed up to a fat property the Black Flag snapping at his top gallant, gunports open and shot peppering his prey's water line. He took what he wanted by main strength, seized ship and

[2] "Commodore Vanderbilt" by Arthur D. Howden-Smith. New York.

cargo, and lightheartedly forced the crew to walk the plank. Drew raided more subtly. He went alongside, like as not in the guise of a peaceable merchantman, plausibly spoke his quarry, and unmasked only when within broadside distance. He then, under threats, extorted the strong box and whatever portable riches were aboard, and departed, leaving behind the profitless responsibility and drudgery of working the craft into port. Van Derbilt was, for all his plundering, constructive; Drew seems, at this distance in time, to have been an inveterate wrecker.

How vividly the contrasted freebooters stand out, in all dimensions, after more than two generations! If Wall Street boasted a hagiology, Drew and Van Derbilt indubitably would be canonized and their relics exposed for veneration. Their extraordinary figures should be carved into gargoyles on the edifice, should one ever be candidly consecrated to Mammon in that district. It is easily possible to visualize the Commodore, believer in spooks, ungrammatical, harshly overpowering, fiercely munching tobacco in his bare office on West Fourth street; listening sentimentally to hymns and ballads in the drawing room of his shoddily furnished mansion in Washington place; permitting Victoria Woodhull, or her lovelier sister, Tennessee Claflin—the astonishing Nineteenth Century Circes who scandalized and bewitched Wall Street under Van Derbilt's patronage—to tweak his burnsides; tooling his span of trotters through Central Park, in stovepipe hat and Prince Albert; or attracting crowds on a veranda of the Congress Hotel in Saratoga at his daily whist game. A sensational fellow, vital, wholly natural.

Mealy-mouthed biographers have attempted to

smooth the edges off Vanderbilt but without success. There he stands, stark and profane, the founder of the New York Central, the unscrupulous grabber of untabulated public wealth in franchises, rights-of-way, etc., increments which make it possible for numerous Twentieth Century Vanderbilts to dwell in aristocratical aloofness from Wall Street and piracy. "He might have come straight out from the Middle Ages. The London 'Daily News' likened him to the Fuggers and the Medicis, and, indeed, there is a flavor of the Renaissance about him. Such as he was must have been the first generation of coarse, ignorant, superstitious merchants of any great trading family. And the odd corollary to this is that he was essentially American, as American as Andrew Jackson or Horace Greeley or Abraham Lincoln." [3]

Drew's jib was of quite another cut. If Van Derbilt stepped from Fifteenth Century Florence or Augsburg, Drew was a Nineteenth Century lower middle class character somehow escaped from Dickens. By all accounts, an irremediable skinflint, a hypocrite, he seems an enlargement of the traditional image of the clutching small-town deacon. Born in 1797, near Carmel, Putnam County, New York, he served profitably and without harm in the War of 1812; he became a drover, proprietor of the Bull's Head Tavern, at about Twenty-third street and Third avenue, a banker for drovers, a Hudson River shipping magnate and a Wall Street trader. Of him it is said that he invented the phrase "watering stock" when he fed a herd of beeves salt at Kingsbridge and watered them plentifully at the Bull's Head after a dusty journey of six or seven miles.

[3] "Commodore Vanderbilt" by Arthur D. Howden-Smith. New York.

Legends, all testifying either to plaintive piety, shameless greed or chicanery, fill out the proportions of Drew's ill fame. By repute, he double-crossed everyone with whom he had dealings. A shouting, mourning Methodist, he died owing Drew Theological Seminary the $250,000 with which he had endowed it—in notes. The seemingly automatic response of Erie stock to his will moved a wit to this neat jibe: "Daniel says 'up'!; Erie goes up. Daniel says 'down'!; Erie goes down. Daniel says 'wiggle waggle'!; it bobs both ways." J. K. Medbury, author of "Men and Mysteries of Wall Street," characterizes Drew as "The Sphinx of Wall Street." He was credited with a couplet still quoted in the Street:

> "He that sells what isn't his'n,
> Must buy it back or go to prison."

Even old Drew, tapping his weasel way along the Street with the ferule of a dismembered umbrella for staff, mouthing fine-cut and dreary phrases about justification by Grace, poor in garb as in spirit, whining and wrecking, has become so little odious with the passage of seventy years that we must confess a sort of furtive fondness for him. As disclosed in the documents so miraculously discovered by the Rev. Bouck White—a find quite as incalculable as that of the Golden Book of Mormon—Uncle Dan'l is so rounded, so complete a hypocrite that he acquires almost the charm of perfection. White's "The Book of Daniel Drew" is a picaresque classic. Drew just possibly might have been as unctuously wicked as his pseudo memoirs make him out.

Pirate Van Derbilt and Pirate Drew fought it out thrice off the Wall Street main. Van Derbilt over-

powered his rival twice, swarming his decks and giving no quarter. Those were the engagements indentified in the chronicles of Wall Street as the Harlem Corner and the Hudson River Corner. On the third occasion the Commodore, barge and swear as he might, could not prevail over the superior cunning of Drew, who by then had for mates, Jay Gould and Jim Fisk, as horrid a pair of apprentice buccaneers as ever spliced a main-brace in Wall Street waters. That engagement was a "chapter of Erie."

The Commodore, heavy with shipping millions, went into the railroad business in 1862. That is, he sailed alongside the rattle-bang New York and Harlem, a jerkwater line, which ran by horsepower from Twenty-sixth street and Fourth avenue to Forty-second street, and thence northward along what is now Park avenue, and up the Harlem valley to a despondent terminal at Brewster in Putnam county. A small enough property, it possessed the equivocal promise of a franchise to run horse-cars south on Broadway from Fourteenth street to the Battery. The erection of that promise into a franchise hinged on a grant from the Common Council. The Broadway franchise had for years been regarded as a potential treasure trove. As early as 1852 a group had offered to pay the City a $1,000,000 bonus and carry passengers at a three cent fare. Rival bidders proposed a franchise rental of $100,000 a year. By the time Van Derbilt had bought in, through various manipulations, control of the Harlem at from $9 a share upward, the Broadway franchise was estimated to be worth $10,000,000.

By mid-April, 1863 Harlem sold at $50 a share and on the night of April 21, the Common Council, Boss

Tweed's "Forty Thieves," voted the New York and Harlem a perpetual franchise for a railway from the Battery to Union Square.

Thus, the groundwork for the Harlem Corner.

"But the aldermen were by no means unschooled in the current sharp practices of commercialism. A strong cabal of them hatched up a scheme by which they would take Van Derbilt's bribe money, and then ambush him for still greater spoils. They knew that even if they gave him the franchise, its validity would not stand the test of the courts. The Legislature claimed the exclusive power of granting franchises; astute lawyers assured them that this claim would be upheld. Their plan was to grant a franchise for the Broadway line to the New York and Harlem railroad. This would at once send up the price of the stock. The Legislature, it was certain, would give a franchise for the same surface line to George Law. When the courts decided against the Common Council that body in a spirit of showy deference, would promptly pass an ordinance repealing the franchise. In the meantime, the aldermen and their political and Wall Street confederates would contract to 'sell short' large quantities of New York and Harlem stock." [4]

That was Uncle Dan'l's scheme. The "strong cabal" belonged to him and to Tweed. Uncle Dan'l, lurking in the rear, posing as Van Derbilt's friend, buying up in his unobtrusive fashion one share to the Commodore's ten, unmasked himself when Harlem, at news of the franchise soared to 100. Drew, Tweed, the aldermen, certain Wall Street operators in on the "squeeze"

[4] "The History of the Great American Fortunes" by Gustavus Myers, Vol. II, Chicago.

began to sell. Harlem's ascent halted. It began, day by day, to bump downward.

Up in Albany, the Legislature, annoyed by the Common Council's temerity in handing out the Broadway plum, voted to give the self-same rights to "Live Oak" George Law, one of Van Derbilt's dearest enemies. Governor Seymour vetoed the measure but the courts quite properly held that the Council had lost its power to grant city railway franchises in New York City. By autumn of 1863, Harlem had declined to 72. It appeared that Van Derbilt had been trimmed. Drew and his conspirators sold eagerly. But presently they found to their astonishment that the market refused to budge. The Commodore was out to trim the trimmers. Mobilizing stores of ready cash, he bought as fast as the Drew crowd sold. Trading grew furious for a few days. Still Harlem would not sag.

And one day the crafty Drew, sitting on his sofa in the back room of a dingy brokerage house at 15 William Street, discovered that Harlem was rising, and rapidly. His thin nose smelled a corner. He was right. Van Derbilt had bought more shares than the market afforded. The shorts pushed the price up to 170 in their panic to cover and finally the hindmost were forced to settle at 179 a share. "He and his partners in the bull movement took a million dollars from the Common Council that week and other millions from others." [5]

Drew's losses were put at a half million. There is no way accurately to get at such matters now. The utmost confusion appears in the records of the period with respect to the nature and scope of the Harlem and

[5] "The Vanderbilts and the Story of Their Fortune" by W. A. Croffutt. New York.

Hudson River corners. White's book about Drew mentions only the Harlem, citing several circumstances which others relate to the subsequent Hudson River operations. "The History of the New York Stock Exchange," by H. G. Hemming, refers to two Harlem corners and ignores the Hudson River. Charles F. Carter in his book, "When Railroads Were New," recalls two Hudson River corners but none in Harlem.

However, sufficient authorities exist to convince us that in the following year, 1864, Drew again tackled Van Derbilt.

The Commodore by now had boarded also the New York and Hudson River, a disheartened, over capitalized, badly managed line running from the east side of the river at Albany to Thirtieth street and Eleventh avenue, where sprawled the cindery old depot through which "Honest Abe" Lincoln had entered New York for a cheerless reception on his way to Washington in 1861. By now, Gettysburg was in the past, Appomattox to come. Great burned-over areas of slum still reminded New York of the hideous draft riots in the preceding summer. The masses, aswarm in damp tenements on Cherry Hill, east and west of the Bowery, seethed sullenly against the War, the draft, and the rich. The better orders, lengthening their purses on war contracts and speculation, tepidly toasted Father Abraham, the booted backwoods lawyer from Sangamon, and Van Derbilt ran smack into some of the toughest opposition of his boisterous career.

Dominating the Harlem and the Hudson River, he boldly planned in the midst of the general dismay to unite them, thus eliminating competition and giving him a monopoly of entrance into Manhattan by land.

The Legislature would need to be bought. It usually was for sale. And so the Commodore, bluff, optimistic, boarded one of his own trains at Eleventh avenue and Thirtieth street presumably with a carpet-bag full of specie—the Senators and Assemblymen demanded gold in those parlous days, when the fortunes of war so drastically affected the value of greenbacks—and set off for Albany with a retinue of friends and lawyers. That was in February and a week's work persuaded the Legislature that a juncture of the Harlem and the Hudson River would immoderately bless the people of the State of New York. Van Derbilt returned to New York. The stock of the Hudson River, which had grown bullish with rumors of the proposed merger, had bounded from 25 up to 150.

Enter Dan'l Drew. Whether Drew approached the legislators or they him is not apparent in the record. Such negotiations are not often reduced to writing for the sake of posterity. In any event, the report reached the Commodore on an evening in early March as he sat at whist in the parlor of his Washington place mansion that treachery was afoot up the river and that Dan'l Drew somehow figured. The politicians, scarcely recovered from the Harlem escapade, were up to old tricks.

Down in William Street, that day, Drew assured a courier from the Albany cabal: "We ought to knock Hudson down to 50. We'll clean up millions and give Van Derbilt a lesson in speculating."

John Tobin played opposite Van Derbilt that March night. Tobin and Van Derbilt had joined fortunes when the former worked as gatekeeper on the Commodore's Staten Island ferry. Tobin had made a million

dollars supporting Harlem against the "Forty Thieves." He listened intently to the word from Albany. Tobin also was "long" on Hudson River—i. e., he owned many shares purchased in the rising market up to 150.

Van Derbilt flared and Tobin cogitated.

"John, don't them fellers need a dressin' down?" asked the Commodore. Tobin allowed they did.

"John," said the Commodore, "lets teach them rascals never to go back on their word again so long as they draw breath."

It was agreed. Tobin forked over $1,000,000; the Commodore pledged $4,000,000. They sent for Leonard Jerome, a steady hand in an unruly market; for Dick and Gus Schell, the Commodore's favorite brokers. Until late, they counselled how best to beat back the legislative traitors and the unctuous Drew.

"I'm going to bust them thieves," the Commodore swore. "All I got is in this railroad deal—and I'll take all they give me."

Bright and early next morning Van Derbilt, grimly erect behind a span of trotters, tooled down to Schell's Wall Street office, GHQ of the Hudson forces. Tobin and Jerome gathered about. The market opened quietly, but within an hour Hudson River became active. A wave of selling poured across the Stock Exchange into the Van Derbilt entrenchments. The price wavered at 150, fell away several points.

"Buy all that's offered," the Commodore directed.

The Drew scuttlers actually were raiding Hudson and Van Derbilt. Early in the afternoon rumors sifted through the Street—ugly reports that the Legislature intended going back on its word that night. Van Der-

bilt wouldn't get his merger and Hudson was up the flue—worthless, almost.

The selling wave turned into a torrent. The orders, issuing from Dan'l Drew, overflowed Van Derbilt. At the day's end, the price of Hudson had been hammered down 20 points.

That night, Van Derbilt sat silently at one end of a telegraph wire leading from the Capitol at Albany. He chewed a dry cigar and thought. He scarcely read the anticipated bulletin of his bill's defeat. He had, he meditated, one chance. If Drew and the politicians over-reached themselves he might establish a corner, as he did with Harlem. If they bought shrewdly he was ruined, his grand scheme for a New York State trunk line would be demolished. His game was to entice the enemy into a corner. To do that he must play weak.

The next day the Commodore drove down to Wall Street as impressively as ever. But soon gossip got about. Van Derbilt knew he was licked; he couldn't support Hudson much longer. The bears had the most powerful Bull in the Street on the run. Hilariously, the shorts believed the rumors and sold, in a sort of greedy madness.

"The members of the Legislature completely lost their heads. Some of them mortgaged their houses and lands to get money to sell Hudson 'short.' They advised their friends that it was a sure thing and brought all their acquaintances into the speculative maelstrom." [6]

Uncle Dan'l, tobacco juice dripping over his vest, lost his head, too.

"We'll pound 'er down to eight or nine," he assured the gleeful Assemblymen and Senators.

[6] "Fifty Years in Wall Street" by Henry Clews.

Over in the Hudson camp, Van Derbilt, busy with a pencil stub, bought judiciously. Each hour he reckoned the number of "sheers" he had. Only 110,000 were outstanding. The price dropped to par, down through the nineties, and still the fever raged. The Commodore slowed the descent through the eighties. He was nearing his goal. When Hudson hit 72, the Commodore had locked up more than the outstanding issue.

Now, he bought ruthlessly.

"It seemed impossible to intimidate the savage, harsh-voiced old man whose hearty curses resounded from office windows. The panic spread. Orders to buy Hudson flooded the market and were unanswered. The price rose, slowly, then rapidly, finally by leaps and bounds. Back to 100, to 110, to 125, to 150, to 200, to 285.

"Whoopee! Wall Street howled and wept. Dan'l Drew lost the cud out of his mouth as he bent over order slips. There were tears in his rheumy eyes; his falsetto voice cracked in a whine of self-pity." [7]

The bears pleaded for mercy. Statisticians figured they had sold 27,000 shares more than were available at any time.

"Put it up to 1,000. This panel game has been tried once too often," the Commodore shouted.

But Jerome, Tobin, the Schells and others urged leniency. Half the houses in the Street would go under if he pressed the advantage. The Commodore agreed to settle for 285. The Legislature, demoralized, broke, settled. So did Drew—for what tradition puts at a million dollars. The Commodore had his railroad and a new fortune beside. He had routed the most spec-

[7] "Commodore Vanderbilt" by Arthur D. Howden-Smith. New York.

tacular bear raid in the history of Wall Street since the day the twenty-four brokers in tall beavers incorporated the Stock Exchange under the Street's long-vanished buttonwood tree.

"Nothin' like trimmin' a bunch of thieves," the Commodore grunted. "We busted the hull legislature. Some of the honorable gentlemen didn't have money to pay their board bills up to Albany."

Here, by example, was a type of Wall Street operation which infinitely transcended in social importance the stock jobbing of railway shares and national debt dealings which had previously preoccupied the market. Here was a method, which was to be progressively refined and subtilized during the subsequent two generations, of manipulating the resources of the country in addition to realizing such profits as were otherwse obtained by the spin of a wheel or a turning card. After Van Derbilt and Drew, marched as disciples, Gould, Keene, Woerishoffer, Gates, Harriman, a numerous host who chivvied and tricked, pilfered railroads and corporations, undermined rivals and, in general, put the invested wealth of the country as represented in Stock Exchange tokens, at their mercy.

We have no means of estimating the social consequences of the new style piracy between the Civil War and the Coolidge New Era. We may only examine specific and grievous specimens of those operations, suspecting that the evils far overbalance the gains for the common run of man.

VIII—ERIE, HARLOT OF THE RAILS

IN the checkered "Chapters of Erie," narratives replete with fraud, thievery, and the perversion of a fair railroad to the grossest speculative abuses, one episode contributed infinite and mordant mirth to Wall Street.

That episode was the low-comedy retreat of the Erie pirates on the forenoon of March 11 in the wickedly robustious year, 1868.

Here was laughter fit for the somewhat grimy gods of Wall Street.

The rout began, physically, in the dingy offices of the Erie Railroad at 187 West Street, a wide cobbled thoroughfare which ran then, as it does now, between the Hudson river docks and the first rank of brick and steel that marches across Manhattan Island. It began with a commotion in the offices of the high magnificos of the road, spreading into the outer rooms where meagre clerks at work on tall stools were startled out of boredom by the hasty debouchment of three singular figures. First, the mournful Drew, clutching a parcel of securities, hitching toward the outer door as if the Old Nick was after him; then the bearded Gould, paler than usual and also holding fast to a bundle of papers; lastly, James Fisk, Jr., calling out a ribald gasconade to a dismayed individual in an alpaca coat as he waddled toward the exit. Two porters hurried after bearing an oaken strong box. A hard-looking

male carrying a rifle brought up the rear. The strange procession made directly for two four-wheelers standing at the curb. Fisk loaded the strong box, porters and guard into one carriage. Drew and Gould already had seated themselves in the second and when Fisk swung in, the horses were already dancing toward the Pavonia (Jersey City) ferry house.

At the ferry house, attendants, observing the earnest features of their masters, removed every barrier as the carriages flew over the apron and aboard the steam ferry, "The City of Binghamton," which put out at once for the secure haven of Jersey City where the writs of New York State did not run. Thus, the celebrated retreat from Wall Street by the Erie pirates. The Executive Committee of the Erie, laden with $7,000,000 in spoils, was in hot flight. Not from the wrath to come —only Drew worried about a condign end—but from the very meaty, healthy wrath of a certain Corneel Van Derbilt, lately "skun" in the stock market and vowing sulphurously to get square. Also, and more urgently, from the threat of $500,000 bail bonds to be imposed by the outraged and outrageous Supreme Court Justice George B. Barnard, Tweed's judicial lackey. The unholy trio not only had trimmed the Commodore, rocked Wall Street until the market "reeled to and fro like a drunken man," but they had defied an injunction granted by Judge Barnard against mobilizing 100,000 shares of Erie convertible bonds as ammunition in their war with Van Derbilt. They had broken Van Derbilt's contemplated corner, brought Wall Street to the verge of panic and now were executing a strategic retirement to the low shores of Jersey.

Their retreat, surely one of the most entertaining

circumstances in the ruffianly period following the Civil War, had elements of melodrama as well as farce. With the "City of Binghamton," its paddles beating hastily, well out into the stream, Fisk made a joke. "The sun didn't get to rest tonight, did it?" he jeered, with reference to Van Derbilt's threat that all three would be in Ludlow Street jail by sundown.

"Don't boast, brother," Drew whined, "it begins to look as if we woke up the wrong passenger."

Landed at Jersey City, the fugitives established themselves in a hostelry known as the Taylor hotel, near the Erie depot, and a refuge which at once became known as "Erie Castle" or "Fort" Taylor.

Entrenched at "Fort" Taylor, with Drew, in the ladies' parlor, thumbing his Bible and meditating new rascalities; Gould silently tearing strips of paper and preparing legal stratagems; the ruddy, hempen-mustached Fisk swaggering between the "Fort" and the Erie depot, the images, no doubt, of various curvilinear temptresses in far Manhattan afflicting his memory; alarms filled the air about them. "In the first shock of the catastrophe it was actually believed that Commodore Vanderbilt contemplated a resort to open violence and acts of private war. There were intimations that a scheme had been matured for kidnapping certain of the Erie directors, including Mr. Drew and bringing them by force within reach of Judge Barnard's process. It appeared that on the 16th of March some fifty individuals, subsequently described, in an affidavit filed for the special benefit of Mr. Justice Barnard, as 'disorderly characters, commonly known as roughs,' crossed by the Pavonia ferry and took possession of the Erie depot. From their conversation and inquiries it was divined

that they came intending to 'copp' Mr. Drew, or, in plainer phraseology, to take him by force to New York; and that they expected to receive the sum of $50,000 as a reward for so doing. The exiles at once loudly charged Vanderbilt himself with originating this blundering scheme. They simulated intense alarm. From day to day new panics were started, until, on the 19th, Drew was secreted, a standing army was organized from the employees of the road, and a small navy equipped. The alarm spread through Jersey City; the militia was held in readiness; in the evening the stores were closed and the citizens began to arm; while a garrison of about one hundred and twenty-five men intrenched themselves around the directors, in their hotel. On the 21st there was another alarm, and the fears of an attack continued, with lengthening intervals of quiet, until the 31st, when the guard was at last withdrawn. It is impossible to suppose that Vanderbilt ever had any knowledge of this ridiculous episode or of its cause, except through the press. A band of ruffians may have crossed the ferry, intending to kidnap Drew on speculation; but to suppose that the shrewd and energetic Commodore ever sent them to go gaping about a station, ignorant both of the person and the whereabouts of him they sought would be to impute to Vanderbilt at once a crime and a blunder. Such botching bears no trace of his clean handiwork." [1]

Here, truly, was Gargantuan extravaganza, played out against the sordid back-drop of robbery on a Continental scale. The period has been variously characterized. Claude G. Bowers called it the "tragic era," Don C. Seitz, the "dreadful decade." Always, the con-

[1] "Some Chapters of Erie" by Charles F. Adams, Jr., Boston.

notation has been infamous. In Washington, the scandals of Reconstruction had recently reached a climax with failure of the vengeful impeachment plot against President Andrew Johnson; in New York City, Tweed was establishing an all-time low for municipal corruption, building a fabulous courthouse and extending his vicious reign to Albany, where he had just enrolled the Black Horse Cavalry, thirty greedy legislators, for a series of historic raids on the commonwealth. Wall Street, tutored in the new piracy by the Commodore and the Deacon, was engaged in a headlong riot of speculative knavery somewhat similar to the excesses of the Coolidge New Era. Indeed, under the influence and example of Van Derbilt and Drew, the New York Stock Exchange was just beginning to earn the reputation it still sustains as the most savagely ruthless money market in the world.

". . . . the United States . . . before passing the climacteric of the Civil War was evolving, not so much a distinct technique, as one different in degree rather than in kind. Manipulation for the purpose of speculation is very ancient. It can be traced far back into classic and Biblical times. Yet no one supposes that the early practitioners of the corner, the pool, and eventually the holding company and the trust, read up the subject in ancient lore or Holy Writ. And if the more complicated types of manipulation are not an indigenous growth in North America, they were certainly pursued with greater energy and wider scope. . . . After the Civil War . . . these forms of stock-exchange activity became a byword and example to the older Stock Exchanges. Thus, from the 'seventies onward followed considerable and continuous legislative efforts directed towards the limita-

tion and control of the various efforts at manipulation, which as consistently sought to evade such control. Nothing like it can be found in European history. And this is natural, for the more highly individualistic any society becomes, the more natural it is for the manipulator to see himself entitled to make as great a personal profit as he can, in spite of the common utility on which he is as much dependent as all those surrounding him." [2]

Wall Street stood on the threshold of a bonanza, which, interrupted from 1873 to 1879 and less drastically at intervals thereafter, continued through the Coolidge New Era. Its jungle morals, only slowly ameliorated, remained approximately those of a mining camp or a Florida boom metropolis throughout.

And in this broiling, mischievous Wall Street of the late 1860's, Erie was the principal booty. Consistently looted by Drew, that railroad—the first trunk line on the Continent and a truly magnificent property in prospect—was wooed and won by so many other freebooting bands that Charles F. Adams, Jr., contemptuously characterized it as "the scarlet woman of Wall Street." Erie and its stock-market vicissitudes became a subject for jesting. It was appropriate that the ludicrous retreat of Drew, Gould and Fisk, certainly the funniest episode in Wall Street's chronicles, should have happened in relation to that railroad. What a comedy indeed: a rich railroad despoiled, investors beggared, public grants rendered worthless through stock market raids and bankruptcies, shippers mulcted and employees and their families to the number of 15,000 oppressed and defrauded of decent wages!

The predicament of Erie deserves close study in

[2] "A History of Financial Speculation" by R. H. Mottram. Boston.

any appraisal of the relations of Wall Street to the railroads. Erie's woes afford, indeed, a classic example of how stock jobbers, using the railroads as pawns, mercilessly preyed upon the people. Erie was built, in very large part, with public funds and private subscriptions, which vanished under the gross extortions of promoters and construction subsidiaries. Free rights-of-way, worth at the time upward of $500,000; grants of money and credit from New Jersey and New York, from counties, cities and towns; public-spirited subscriptions, from the well-to-do in every community along the route, more than paid for this beneficent public utility. "The Erie railway was built by the citizens of this State with money furnished by its people. The State in its sovereign capacity gave the corporation $3,000,000. The line was subsequently captured, or we may say stolen, by the fraudulent issue of more than $50,000,000 of stock. . . ."[3] When work began, at an estimated cost of $6,000,000, New York State had loaned $3,000,000 and citizens had subscribed one and one-half millions of the cost. Demands for money were insatiable.

In February of 1837, before the panic of that year had materialized, Philip Hone, the scrupulous diarist, reported attending a meeting in Clinton Hall, presided over by Mayor Cornelius W. Lawrence, at which $1,200,000 was subscribed for "completing the Erie." By 1842 the cost had been run up to $12,500,000 with no funds to finish the line. New York State and New York City refused to lend their credit because of the

[3] "An Analysis of the Erie Reorganization bill, etc.," submitted to the Legislature by John Livingstone, Esq., counsel for the Erie Railway Shareholders, 1876.

prodigal, and downright thievish, methods of the promoters. However, by 1845, the State yielded, and remitting its previous loan of $3,000,000, subscription books again were opened, the drums of publicity rolled, shareholders gave up half their old rights, pledged $3,000,000 more for stock and the promoters raised another $3,000,000 in ready English gold on mortgage.

When, in 1851, the road was opened from tidewater to the Great Lakes, its extravagant cost may actually be said to have been defrayed wholly by the people independently of Wall Street. One scans the mottled record of the organization and building of the Erie in vain for a trace of the aid which its apologists unremittingly assert Wall Street has given, in the fashion no doubt of a paternal uncle, to the railroads. The country, astir with new large-scale enterprise under the high-pressure, forcing auspices of the American Plan—that enormous structure of governmental boons by tariffs and other preferences to infant industries—was lustily and rightfully proud of the Erie in 1851. "The road was, in truth, a magnificent enterprise, worthy to connect the Great Lakes with the great seaport of America. Scaling lofty mountain ranges, running through fertile valleys and by the banks of broad rivers, connecting the Hudson, the Susquehanna, the St. Lawrence, and the Ohio, it stood forth a monument at once of engineering skill and of commercial enterprise." [4]

Magnificent indeed! But by 1859, the New York and Erie Railroad Company, its original name, could not meet the interest on its unnecessarily high bonded indebtedness. Large sums had been extracted from the treasury improperly. Rates had been juggled in pur-

[4] "Some Chapters of Erie" by Charles F. Adams, Jr.

suit of the childish guerilla warfare waged for so many years by railroad presidents, and, in addition, the management had been downright incompetent.

But, worse than all the rest, Erie, which began life as a utility designed honestly to serve vast populations, in 1859 fell into the hands of Dan'l Drew. In that year, the former drover, now a shipping magnate in the Hudson river and Long Island Sound, boarded Erie and took the quarterdeck. Whereupon, the Erie, which under proper management could handsomely and profitably have fulfilled the functions of a railroad, became instead unprosperous, rundown, and a prey of Wall Street. And for nine years Drew, as treasurer and director, manipulated its stock in the interest of Drew. The "speculative director" he was called in Wall Street. Money appropriated for improving the road-bed, reducing grades, making cuts and replacing rolling stock did not, in fact, go for those purposes. Accidents multiplied, officers and employees were disheartened, the road went rapidly to wrack and ruin.

Drew repeatedly manipulated the stock. In 1866 he executed a master stroke. Erie needed funds and the directors called upon Drew, always ready, for a usurious consideration, to supply cold cash. He put up three and one-half millions, taking 28,000 shares of authorized but unissued stock and $3,000,000 in bonds, convertible into stock, as security. Erie was selling at 95, the market was bullish and a favorable report instigated by Drew improved the stock's position. The time was ripe for a bear raid. "While Erie was buoyant—while it steadily approximated to par—while speculation was rampant, and that outside public, the delight and the prey of Wall Street, was gradually drawn in by the

fascination of amassing wealth without labor—quietly and stealthily, through his agents and brokers, the grave, desponding operator was daily concluding his contracts for the future delivery of stock at current prices. At last the hour had come. Erie was rising, Erie was scarce, the great Bear had many contracts to fulfil, and where was he to find the stock? His victims were not kept long in suspense. Mr. Treasurer Drew laid his hands upon his collateral. In an instant the bonds for three millions were converted into an equivalent amount of capital stock, and fifty-eight thousand shares, dumped, as it were, by the cart-load in Broad street, made Erie as plentiful as even Drew could desire. Before the astonished bulls could rally their faculties, the quotations had fallen from 95 to 50 and they realized that they were hopelessly entrapped.

"The whole transaction, of course, was in no respect more creditable than any result, supposed to be one of chance or skill, which, in fact, is made to depend upon the sorting of a pack of cards, the dosing of a racehorse, or the selling out of his powers by a 'walkist.' But the gambler, the patron of the turf, or the pedestrian represents, as a rule, himself alone, and his character is generally so well understood as to be a warning to all the world." [5]

Drew's sharp trick did not escape the notice of Wall Street. The delights the wily manipulator had been enjoying privately with the slack Erie excited the envy of contemporaries, none more than the Commodore, who was beginning to think of himself as a considerable railroad magnate. Having merged the Harlem and the Hudson River and having, with the New York Central

[5] "Some Chapters of Erie" by Charles F. Adams, Jr.

from Albany to Buffalo virtually in his grasp, formulated a design for a trunk line from New York to Buffalo, he already was casting covetous eyes upon the Erie, which linked New York with the Great Lakes. Given control of both systems, the Commodore would, he perceived, monopolize rail transportation across New York State. Van Derbilt's most recent biographer, Mr. Arthur D. Howden-Smith, suggests that the Commodore interested himself in Erie out of eleemosynary, not to say punitive motives. "He guessed," writes Mr. Howden-Smith, "he'd skin the hide off of Drew. Such fellers was pests —oughter be run out of town. No bettern' thieves." A less partial historian might suspect that the Commodore was moved by more personal considerations.

Whatever the reason, here was the Commodore, aged, fierce, and thunderous, sailing alongside the Erie in 1867. As Drew was the man in possession, Van Derbilt at first tried subtlety. A group of august nabobs in State Street, Boston, were seeking to peddle a railroad known as the Boston, Hartford, and Erie, which operated 240 miles of rust from Boston to Fishkill on the Hudson, connecting there by ferry with a stub of the Erie terminating at Newburgh on the west bank. The Boston, Hartford, and Erie, its name "synonymous with bankruptcy, litigation, fraud and failure," owned a dozen wheezy locomotives and a few score passenger and freight cars and, owing to over-capitalization, faced bankruptcy. The Boston gentlemen were buying into Erie with an eye to negotiating the absorption of their road with a subsequent under-writing of their bonds. Van Derbilt, likewise, was buying Erie, and heavily.

The Commodore conceived it useful to unite his

aims with those of the Bostonians. He did so. The scheme was to obtain control, eliminate Drew, incidentally rehabilitate the Erie physically, take over the Boston, Hartford and Erie and supply Van Derbilt with his monopoly.

But news of the confederacy reached Drew, who promptly approached the Commodore and begged for mercy so eloquently that Van Derbilt relented to the point where he agreed that, pursuant to his treaty with the Bostonians, Drew should not be reelected to the Board at the annual meeting on October 8, 1867 but that a dummy director should be chosen who would resign next day in favor of Uncle Dan'l. In the long run, Van Derbilt's magnanimity was to cost him a sum estimated by him at $2,000,000; by other authorities at a great deal less than half that.

More notable, however, in the annual meeting of that date was the first appearance on the Board of two youngish stock brokers, Jay Gould and Jim Fisk, Jr. Gould, the shy little bearded man with moist hands, a taste in bulb culture, a cartographer in his Delaware County youth, a mousetrap patentee, already surrounded with an evil aura by rumors that his chicanery had caused the suicide of Charles M. Leupp, a wealthy leather merchant in "the Swamp," New York's tanning section; Fisk, a large, candid hedonist with the showy tastes of a primitive, the mind of a mischievous adolescent, and preposterous self-confidence. No stranger pair ever teamed it in Wall Street. In retrospect, Gould and Fisk seem theatrical, slightly unreal. But in their lifetimes, they, as well as Van Derbilt and Drew, were accepted in the Wall Street community as matter of fact

figures, rather more predatory than most, and not nearly so pictorial as they seem to us.

Van Derbilt, Drew, Gould and Fisk were respected magnates of their time, although an occasional editor, exasperated by some especially overt skull-duggery, obliquely laced one or more of them. Gould, whose sustained ruthlessness earned him more popular opprobrium than any outstanding money-getter aside from the elder Rockefeller, would have fitted into the Wall Street pattern inconspicuously in this generation. Fisk would not. His adulteries were too melodramatic, his wit too robust, his watch chain too thick, his pusillanimity too naïvely candid for a mealy-mouthed generation, which erects Service into a shield behind which to filch a neighbor's property.

Fisk was an outright scoundrel, addicted, as, oddly enough, was Boss Tweed, to canaries. Gould's only æsthetic flourish expressed itself in flowers. A frail, physically timid man, Gould seemed in perpetual and violent flight from poverty. He had gone barefooted of frosty mornings on his father's Delaware County farmstead. The thought of privation, the bruising impact of icy boulders on his feet, seemed always to fill Gould —"the smartest man in America"—with a sort of feminine horror. Gould was a home man. Fisk kept his wife, Lucy, primly established in Boston and maintained the voluptuous, hazel-orbed, Josie Mansfield in a rather brassy state of sin in West 23rd Street. The town gaped at Josie and laughed at the blunt gallantries of Fisk, known rather affectionately as "Jubilee Jim," as the "Prince of Erie" and as the "Admiral." Gould traveled a beaten path from Wall Street to his astonishing battlemented stone castle at Irvington-on-Hudson,

in the grounds of which he delved among the tulips and the cabbages.

Fisk got control of the Fall River Line steamships, had his tailor outfit him as an Admiral with brass buttons, hung oil paintings of himself and Gould on either side of the grand staircase on all his liners; a foible which prompted the witty stock broker, William Travers, to inquire why the portrait of Our Lord was lacking from the center. He had himself elected Colonel of a moribund National Guard Regiment and fled the scene of the Orange riots over nine back fences, escaping in disguise to Long Branch, New Jersey. He bought Pike's Opera House at 8th Avenue and 23rd Street, renamed it the Grand Opera House, produced opera bouffe, starred his favorites, quarreled with stage directors, maintained gorgeous offices paneled in rosewood with a direct telegraph wire leading into Miss Mansfield's boudoir down the street. Graceless, a spendthrift in Annie Wood's elegant West Twenty-fourth street bagnio, in Delmonico's, the Fifth Avenue Hotel, Harry Hill's or Billy McGlory's, Jim Fisk delighted gaslit, brown-stoned little old New York with his wickedness. But he was a power in Wall Street and gave to the poor.

And he and the three other principals in the Erie wars loomed respectably in the uncouth financial community of the '60's. Fisk and Gould entertained President Grant on visits to New York, Fisk giving a gala performance at the Fifth Avenue Opera House for the Presidential party. In 1869, after Gould and Fisk had engineered the notorious gold manipulation which precipitated "Black Friday," they were among the honored notables at the public unveiling of a $250,000 bronze of Van Derbilt and Industry on the New York

Central freight terminal in St. John's Park. Drew also attended in frock coat and gaiters. Among the others were Mayor Oakey Hall, Tweed's man, who in foppishness, quick-wittedness, personal charm and social adaptability, furnished a pattern for a later chief magistrate of New York City; the Episcopal bishop of New York, an Admiral, the United States District Attorney, and August Belmont, Henry Clews and Chauncey M. Depew. "Bishop Janes prayed that the 'authorities may be a terror to evil-doers,' and 'supplicated God that, as riches and honors in this world had been heaped on Vanderbilt, he might devote all his ability to the cause of humanity, and to seek to lay up treasures in heaven.' Mayor Hall compared Vanderbilt to Franklin, Jackson and Lincoln—a 'remarkable prototype of that rough-hewn American character . . . which can carve the way of every humbly born boy to national eminence.'

"Simultaneously another ceremony was being staged by irreverent brokers in the New York Stock Exchange. Amid uproarious laughter the brokers unveiled a 'statue' to Commodore Vanderbilt—'a tall figure draped in white, with a face expressive of little but idiocy,' carrying a well-worn watering pot symbolizing the Commodore's tendency to 'water' corporation stocks. Then an 'injunction' staying further proceedings in the ceremony was served, signed by 'G. Bennerdo' (satirizing Judge Barnard who complaisantly issued the injunctions asked for by Vanderbilt, Gould and Fisk). Jeeringly the meeting decided to ignore the injunction. The chairman delivered an eulogistic speech: 'It is the use of water, not as a beverage but as an element of public wealth, which has been the distinguishing characteristic of the achievements of Commodore Vanderbilt's

later years.' Of the participants in this mock ceremony the 'New York World' said: 'The Commodore is the realized ideal of every one of them. . . . He has done what they all admire and envy him for doing, and what they would all do if they could.' "[6] When Mrs. Sophia Van Derbilt, the Commodore's wife, died that year, Horace Greeley and A. T. Stewart were among the pall-bearers. Drew and young J. P. Morgan were appointed vice presidents of an association organized to erect a statue to George Peabody, the philanthropic Yankee banker in London, recently dead.

Pillars of society, these men who robbed each other and everyone else in sight by means of that mighty slick device, the Stock Exchange.

And what a society their shifting millions rested upon! New York, glutted with many more thousands of immigrants than it was physically equipped to care for, presented contrasts in fortune as marked as any decaying metropolis in the Old World. The exploitation of the Continent had laid uncountable riches in the lap of the metropolis. The port of New York took fabulous toll of the commerce between the interior and Europe. Wall Street, as usual, assessed its disproportionate brokerage on the finance of the land. The lower East Side, then as sixty years later, a disreputable slum area, was the abode of "squalid want, criminal woe, wretchedness and suffering which no pen can describe." The "Times" estimated that the homeless bands of children ranging the streets and sleeping in lumber yards, docks and areaways, numbered at least 10,000. The Tweed ring approached its zenith, "the rule of a dozen sordid men of selfish hearts and narrow brains

[6] "The House of Morgan" by Lewis Corey. New York.

who have plundered us of millions, made our elections a farce and sold injustice at a price."[7] "Hideous suffering, horrible barbarity, abuses and degradation flourished in the New York almshouses. Men and women were bound with ropes and chains in dark, filthy, verminous cells, and a strange, abnormal, hideous race of children is springing up owing to promiscuity among inmates and guards."[8]

The plush-upholstered, pompous, hypocritical New York of the period, attentive to Mr. Beecher over at Plymouth Church, enchanted by the violinistic sorceries of Ole Bull, had taken to cabinet spooks and table rappings but was horribly put out with Harriet Beecher Stowe for her unladylike suggestion that Lord Byron had been living incestuously with his sister. The town's morals, as usual, were at a low ebb.

Now then, we find in the middle of March, 1868, Corneel Van Derbilt, rising seventy-four, his cockeye gleaming, his white whiskers ruffled, figuratively gazing across the Hudson to "Fort" Taylor, where the three fugitive conspirators uneasily plotted further strokes against the Commodore, the law, poor old Erie, public decency and the ruck of investors, shippers and employees who depended on the road.

So far Van Derbilt's effort to add the Erie to his rail barony had been outwitted by Drew and his printing press on the extraordinary 10th of March, when the Erie cabal poured 100,000 shares of stock into the market, forcing the Commodore to absorb it at around 70; raking in his $7,000,000. No one else could have withstood the impact of that blow. Drew, in control

[7] *New York World* of April 9, 1871.
[8] *New York Times* of October 30, 1869.

of the Erie Board, had worked a perfect stratagem. He obtained authorization for an issue of $10,000,000 of bonds convertible into stock. Ostensibly the proceeds were to go for steel rails and to link Erie with the Michigan Central and Canada Southern which would give uninterrupted access into Chicago.

Van Derbilt tried to checkmate this with an injunction. Barnard was his ally. The Drew party obtained counter-injunctions from a Supreme Court Justice at Binghamton and an upright, if gullible, old jurist in Brooklyn. The air was thick with injunctions. The legal strife, specious and corrupt, although at the moment treated solemnly by press and public, was too complicated to be given in detail here. Barnard was Tweed's judge; Tweed at the moment was Van Derbilt's man. The Binghamton justice belonged to Drew and Gould.

At all events, Drew, Gould, and Fisk issued the bonds, converted them into stock in the face of injunctions and on the 10th dumped the whole 100,000 shares, scarcely dry, on the New York Stock Exchange.

Erie opened at 80. Van Derbilt, feeling out the market, bought. It rose to 83. The brokers for the Erie cabal offered 1,000, then 2,000, 5,000 and finally 10,000 shares in the first half hour. The price held firm at first, then it broke slightly. Messengers were dispatched to Schell's office in Broad Street where the Commodore waited impassively. He had one answer: "Support the market!"

A lunacy overspread the Stock Exchange. News spread through the Street and crowds gathered. A colossal fight was on inside. The Drew brokers never ceased hammering, 5,000 lots at a clip. The first 50,000 shares

had been absorbed and the second 50,000 came on remorselessly. Erie dropped by stubborn degrees to 71. A Van Derbilt broker left the floor to report in person. The Drew forces were actually delivering their stock. This was no corner such as the Harlem and Hudson River.

" 'Been workin' the printin'-press overtime, I guess,' remarked Corneel. 'Have to see what Jedge Barnard has to say to that, hey?'

" 'But what are we going to do?'

" 'Buy Erie. Buy every God-damn share of Erie that's offered.'

" 'But how are we going to pay for it?'

" 'You leave that to me.'

"He ended the day with some $9,000,000 of freshly printed Erie stock, and his bankers called on him, anxiously pleading that he should sell a portion of it—you can't handle such a wad, Commodore.

" 'I kin handle this, and more,' he retorted. 'Stand behind me, and I'll be all right.'

"When Dick Schell came to him, lugubrious of countenance, and reported certain banks were refusing to loan money on the collateral offered, largely Erie shares, Corneel answered:

" 'You tell 'em if they try to hang me up I'll start sellin' New York Central at 50 tomorrow—and bust half the Street.'

"He got his loans, and that afternoon drove home as usual, a tall, imposing figure in fur coat and silk hat, managing the trotters easily, for all his seventy-three years. Billy and his army of brokers and hangers-on were concerned, but he was cool and undisturbed, although he had been obliged to raise and transfer to his

opponents $4,000,000 in greenbacks, besides securities, in payment for the more or less worthless stock they had showered on him.

" 'If thar's any law we'll git them fellers,' he asserted confidently. 'It takes a bigger man than Dan'l Drew to bust Cornelius Van Derbilt.' "[9]

Next morning Judge Barnard obligingly issued warrants for the arrest of Drew, Fisk and Gould and threatened to fix bail at $500,000 each, whereupon, the news reaching West Street, the conspirators beat their retreat. Within a week the sentence of exile grew irksome. Drew longed for the society of the ever-present parsons in his Union Square brownstone. Fisk, although comforted by the eye-filling presence of Miss Mansfield, honed for the varied joys of Broadway; Gould missed his hothouses.

The Commodore also wearied of the feud, possessed as he was, to his embarrassment, of $7,000,000 in surplus Erie securities. He contrived to smuggle a note to Drew. The Deacon crossed on a Sunday, when civil processes do not apply in the Empire State, and visited Van Derbilt in Washington Place. They made some preliminary dickers.

On a subsequent Sunday, when Drew attempted to slip away to Manhattan, ostensibly to pass the plate at St. Paul's Methodist Episcopal Church, Gould and Fisk followed him. They arrived at the Manhattan Club just as the Commodore, having been interrupted in a rubber of whist, was beginning to banter the Deacon.

A treaty eventually was made between the pirates. Van Derbilt got $6,750,000 for the $9,000,000 in Erie stock he owned. He had acquired $2,000,000 worth

[9] "Commodore Vanderbilt" by Arthur D. Howden-Smith. New York.

before the tidal wave of March 10. Drew got a sum variously computed up to $500,000. Eldridge, of the Boston crowd, who was serving as president of the road, got $4,000,000 in Erie acceptances for $5,000,000 of Boston, Hartford and Erie's bonds. Gould and Fisk were left, over their protests, with the Erie itself.

The details of these devious transactions are hazy and differ by various accounts. The fact that looms from all the chronicles is that the Erie treasury was assessed for whatever costs were incurred—including a sum estimated at $150,000 to $500,000 which Gould stuffed into a carpet-bag and took to Albany during the darkest hours of the exile to buy favorable legislation from the Black Horse Cavalry. "A total amount of some $9,000,000 in cash was drawn from the treasury in fulfilment of this settlement, as the persons concerned were pleased to term this remarkable disposition of property entrusted to their care."[10] Tweed was in Albany then as State Senator and captain of the Black Horse troop. Gould's mission, specifically, was to have the $10,000,000 in converted stock legalized.

By the beginning of July, Gould and Fisk were in undisputed control of Erie. Tweed and Peter B. Sweeney, a member of the celebrated Ring, were added to the directorate. Between the first of July, 1868, and October 24 of that year, the capital stock of Erie had been expanded from $34,265,300 to $57,766,300. "New issues of Erie were continually forced upon the market until the stock fell to 35; greenbacks were locked up in the vaults of the banks, until the unexampled sum of twelve millions was withdrawn from circulation; the prices of securities and merchandise declined; trade and

[10] "Some Chapters of Erie" by Charles F. Adams, Jr. New York.

the autumnal movement of the crops were brought almost to a stand-still; and loans became more and more difficult to negotiate, until at length even one and one-half per cent a day was paid for carrying stocks. Behind all this it was notorious that someone was pulling the wires, the slightest touch upon which sent a quiver through every nerve of the great financial organism, and wrung private gain from public agony. The strange proceeding reminds one of those scenes in the chambers of the Inquisition where the judges calmly put their victim to the question, until his spasms warned them not to exceed the limits of human endurance." [11] Gould and Fisk profitably were locking up currency—all but precipitating a panic.

In November Dan'l Drew was caught short of 70,000 shares of Erie and ruined.

The following year Gould and Fisk attempted their gold corner, disarranging the whole credit structure of the land, bringing down ruin on numerous speculators, casting suspicion upon the White House and giving to the phrase "Black Friday" a hateful significance still vivid in the memory of Wall Street.

In the case of the Erie, as the record abundantly discloses, it was not Wall Street that financed the railroad but it was quite the reverse; it was the railroad, built with public funds and the eager subscriptions of merchants and manufacturers, to say nothing of farmers, all hoping to improved their fortunes, which financed Wall Street, furnishing commissions to bankers and brokers and a vast plunder to sharp manipulators.

The sundry raids on the Erie enriched Drew, Gould,

[11] *Ibid.*

Fisk and a host of other adventurers. The Commodore's knaveries were unsuccessful.

However, the Commodore magnificently recouped the very next year when, having bribed the New York State Legislature for authority to unite the Hudson River line with the New York Central, he pumped $40,000,000 of water into the resultant system—the framework of the present New York Central. It was piracy on a worthwhile scale. Charles Francis Adams, Jr., estimated that "$50,000 of absolute water had been poured out for each mile of road between New York and Buffalo." Van Derbilt put his roads together at a cost considerably less than $44,000,000. He, himself, increased the capital stock to $86,000,000. A New York State Assembly Committee, popularly known as the Hepburn Committee, investigated the transaction. Simon Sterne acted as counsel for merchants' and shippers' organizations before the Committee. "The $44,000,000," said Mr. Sterne "represented no more labor than it took to print the script." Mr. Gustavus Myers, in his "History of the Great American Fortunes," witheringly described the Commodore's optimistic financing as "piracy."

What were the Commodore's individual profits? Well, he just about doubled his fortune. "One night, at midnight, he (Corneel Van Derbilt), carried away from the office of Horace F. Clark, his son-in-law, $6,000,000 in greenbacks as a part of his share of the profits and he had $20,000,000 more in new stock." [12]

The Corneel Van Derbilt, who carried passengers at a shilling a head across the choppy waters of New York

[12] "The Vanderbilts and the Story of Their Fortunes" by W. A. Croffut. New York.

Bay in the blunt-nosed periauger as a stripling, must have considered that a very good night's work.

In spite of the load of water hauled by every locomotive on the New York Central, the country was expanding so tremendously, the productivity of the soil and the stored up mineral resources were so enormous, the population multiplying so rapidly, that the railroad could earn a decent rate and the price of New York Central stock rapidly appreciated after the merger from $75 to $120 a share, and then, under pressure of a manipulative movement, briefly to $200.

Subsequently, however, the weight of the water together with added burdens of the same nature, hampered the property cruelly. The Commodore, never a moderate man, had fore-handedly taken his share of the profits to be earned by a generation to come and salted them away for the benefit of his dynasty.

IX—PRAIRIE EMPIRE LOOTED

A "BLINDING RAINSTORM" drenched Wall Street on the 18th of September, 1873, physically aggravating the internal distress occasioned by a panic and providing for the simple, a symbol. Nature wept with man. A New Era was suddenly, unaccountably dead. A New Era, which from Appomattox onward had turned the happily reunited Republic, save for the States lately in rebellion, into a smiling land of Canaan, flowing with the milk of exorbitant profits and the honey of speculators' gains.

But now the New Era had come sickeningly to an end and presently the joyous prophets who had foretold a "permanent plateau of prosperity" would be regarding their quondam paradise as a hateful, bewildering purgatory—quite as their descendants were doing in the early 1930's.

The New Era terminated in 1873 anticipated in four major points at least the period of optimistic ebullience ending in 1929. Both followed wars throughout which the country had contrived to prosper. Peace brought great stimulus to industries which had been sidetracked during hostilities, viz., building construction in the decade after the World War. Both periods saw enormous advances in technological skill. A tide of golden profits, too huge to be spent by its relatively few recipients on wise investment and consumption goods, flowed irresistibly into Wall Street, inflating the stock market and

tempting promoters into fraudulent schemes. In the 1870's, the country's productive plant underwent a grave overexpansion. Railroads were overbuilt then as were manufacturing facilities in the 1920's. An analogy existed also in a rapid multiplication of the domestic market. In the earlier time, waves of immigration yearly increased the gross total of consumers. In the later day, mounting wages and the device known as installment selling greatly deepened the outlets for luxuries down through the classes.

Six lean years followed the credit collapse of 1873. At this moment, in 1932, no one accurately can foretell the duration of the current stringency.

Tall enterprises were afoot on all sides, here and abroad, in the late '60's and early '70's. The Khedive had opened the Suez Canal, soon to fall to Disraeli and the Empire. Trains puffed from the Mississippi to the Pacific, over the newly opened Union Pacific, traversing plains useful only to sightseers and buffalo slaughterers, but soon to be filled with the vast ranches of eastern nabobs and English Lords, with isolated sod houses thrown up by eager homesteaders and here and there a drab settlement. In Vienna, at an International Exposition, the optimistic Jay Cooke, "parson and fox," exhibited a striking display showing in relief the lush valleys and magnificent mountains to be spanned by the Northern Pacific, together with samples of Dakota wheat, Hood River apples and a large silver nugget from Idaho.

The Western railroads, following the promotional formula which we have noted, fed the avaricious fancies of the propertied classes in Wall Street. Technological improvements reduced man-power, therefore productive

costs, and lengthened profits. Grimy lads of a mechanical bent perfected machinery for making five times as many shoes with the same hands, and turning out bolts of textiles in half the time and at a quarter of the cost. In Pittsburgh, a merry, energetic little Scotch promoter, Carnegie, had just finished building his first Bessemer steel mill when the storm broke in '73.

Here were the stout beginnings of mass production —not nearly so modern an industrial phenomenon as the uninformed believe. Here, indeed, was a New Era, with the Republic greedily spreading its elbows to the Pacific, orators and press vaunting a boundless future, profits rising geometrically, a healthy, venturesome population planting new homes on prairie, plain and in the Western valleys, and succeeding waves of immigration arriving to replace high priced native labor, thus safeguarding dividends.

A prophet of forthcoming doom would have lacked honor in Wall Street in the early '70's quite as the isolated Jeremiahs were hooted in the Wall Street of the late 1920's.

What could bring grief in times so propitious? Several factors were blamed. The tightening of European money markets, owing in part to the convulsion of the Franco-Prussian War, was one. A partial exhaustion of Lombard Street's surplus capital by the voracity of our railway promoters, was another. Likewise, overspeculation, currency difficulties, the rivalries of great bankers and the downright thievish propensities of certain other bankers. Ascribe to all these a share in the cataclysm which fell upon Wall Street in September, 1873, and you yet find a common denominator and a cause superior to them all (the familiar cause also of

the latest breakdown in trade), namely, overproduction of capital and plant, through the invidious lures of Wall Street, and an underconsumption of goods by a population whose buying power, due to inequitable distribution of the national income, was unable to support inflated production.

Whatever the precise major reason which would be agreed upon by a council of economists, the panic of 1873 descended upon a Wall Street unprepared, as usual, to withstand the blow. Owing to the fact that it was the collapse of Jay Cooke & Company in the midst of its sensational promotion of the Northern Pacific—a classic example of sheer financial effrontery such as apologists for speculative economics bid us admire—which directly shook down Wall Street, the panic became known by the name of the unctuous head of the great Philadelphia house. It might more properly be known as the Railroad Panic, for the grievous overexpansion of the railroads and scandalous speculativeness in their securities, which preceded the crash, were by no means limited to Jay Cooke and the Northern Pacific. It was a general and virulent disorder. "A legion of new lines were undertaken and financed extravagantly, just as had been done in England a quarter of a century before. The country was railway-mad. Every small town wanted a line, and each was sure it would become a metropolis if reached by the magic rails. The result was an immense increment of town, county and state debts, with the proceeds of which reckless promoters played havoc. These usually found their end in that sink of ruin, the New York Stock Exchange, culminating in what is mournfully remembered as the Panic of 1873. Seemingly unconscious that it was creat-

ing a financial morass, the country in four years had constructed nearly twenty-five thousand miles of railroad, while promoters had come to be in default on some two hundred and twenty-nine millions of securities." [1]

The skies over Wall Street were filled with premonitory cloudlets in the summer of '73, but few looked aloft. In July, a Brooklyn bank president drowned himself in the surf of Coney Island. Heavily involved in the New Haven and Willimantic Railroad, later to be incorporated in the New England Air Line, the banker was found to be overdrawn $147,000 and to have hypothecated with his bank another $350,000 in railroad securities of dubious value. It was remarked that other banks were overloaded with railroad issues. Jay Cooke, known admiringly as The Tycoon by his juniors, had laid 500 miles of Northern Pacific track westward of Duluth. He sought vainly, here and in London, to refund a 7.3 per cent bond issue at 6 per cent. The pious, bearded Philadelphian, who had financed the Union cause with ballyhoo methods borrowed from P. T. Barnum and a knack of warming the breast of the common people by platitudes (pocketing, incidentally, commissions of $7,187,000), was under terrific pressure from his inveterate rival in Philadelphia, Anthony J. Biddle; Biddle's rising partner in New York, J. Pierpont Morgan; Morton Bliss & Company, and other envious Wall Street bankers. Morgan, Drexel, and the others resented Cooke's monopoly of favors from the Grant administration. They looked enviously on the enormous profits Cooke seemed likely to reap from the Northern Pacific. So they attacked him, wheeling up

[1] "The Dreadful Decade" by Don C. Seitz. New York.

James Gordon Bennett of the "New York Herald" and George W. Childs of the Biddle-owned "Philadelphia Ledger," to open fire on his extensive Northern Pacific front. But during that summer no one seriously doubted the solvency of Jay Cooke & Company.

However, big bears were sensing a certain underlying weakness in the market. Jay Gould hammered Western Union and Union Pacific during August and minor bears made drives on other issues. The black-bearded, Mephistophelian Gould's maraudings drew upon him in the prelude to the collapse a blast from the "New York World," which on September 1 published a review of the conduct of certain speculators. "WALL STREET KINGS," it called them, with the sub-title:

"A RECORD OF RUIN FROM
BEGINNING TO END"

"WHAT SPECULATION HAS DONE
DURING THE INFLATION"

Obviously pointing the finger at Gould, the article read: "There is one man in Wall Street today whom men watch, and whose name, built upon ruins, carries with it a certain whisper of ruin. He is the last of the race of Kings. There is one whose nature is best described by the record of what he has done, and by the burden of hatred and dread that, loaded upon him for two and one-half years, has not turned him one hair from any place that promised him gain and the most bitter ruin for his chance opponents. They that curse him do not do it blindly, but as cursing one who massacres after victory."

The storm gathered swiftly in September. Dan'l

Drew, whining more dolorously and assuring a comforting preacher that prayer did no good at this stage, went down for the last time on September 13 when his house, Kenyon, Cox & Company, suspended.

"It's no use, brother," Uncle Dan'l told the preacher, "no matter how strong I pray, the sheers keep goin' down."

Kenyon, Cox & Company had overendorsed the notes of the Canada Southern Railway. Their failure to find a market for $5,000,000 in bonds prevented their covering. On the 16th, the paper of the New York, Oswego and Midland went to protest. Money rates soared. The unsuspecting financial writers attributed this to an unsuccessful bear operation in gold.

On the morning of September 18 General Grant, recently inaugurated for his second term in the White House, breakfasted with hospitable Jay Cooke under the hideous stone towers of Cooke's million-dollar palace, Ogontz, in the Chelton Hills north of Philadelphia. The General had brought his son Jessie, at Cooke's suggestion, to a Philadelphia school and he departed that morning by train for the west. Cooke, presumably the most impregnable financier on the Continent, indubitably the most famous private citizen in the Republic, drove to his rat-infested old banking house in Third Street, Philadelphia. The erect little banker, with his round eyes, persuasive, evangelical manner, staggered as he read telegrams from New York awaiting him. A sample of the hell he so much dreaded was to pay in Wall Street. There seems no reason to doubt the assurance of Cooke's official biographer, Mr. E. P. Oberholtzer, that the blow fell without adequate warning.

The New York Stock Exchange opened that morn-

ing amid a slight distemper. Nerves were jumpy. At ten minutes to twelve, the president read the announcement that Jay Cooke had failed. A brief silence supervened, broken, if we may credit a contemporaneous account, when "a monstrous yell went up and seemed to literally shake the building in which all these brokers were confined. Many tore their hair and ran about as if crazy, pushing, battling, shouting, shrieking to others equally crazy."

Here is another version of the scene on 'Change:

"Then there was an 'uproar,' said a journalistic eye witness, 'such as has scarcely filled the Exchange since it was built. Messengers fled every way with the story of ruin, and down came the stocks all along the line.' Western Union lost ten points in ten minutes; fractions were not recognized in the haste to sell, and the Exchange became a mob, the members jostling each other, and screeching their commands in the midst of pandemonium." [2] Incredulous traders rushed messengers from the floor, hatless, across Wall Street to the Cooke agency, which stood at the northwest corner of the Nassau street intersection. There they read a crisp notice posted on the door:

> "Messrs. Jay Cooke & Company have announced their suspension in consequence of large advances made to sustain their Philadelphia house and a heavy draft upon their own deposits. It is hoped the suspension will be only temporary."

"A blinding rainstorm drenched a gathering throng of men, women and children who were shouting and gesticulating wildly. They crowded into the basement,

[2] "Jay Cooke, Financier of the Civil War" by E. P. Oberholtzer. Phila.

peered into the windows and insultingly accosted the partners and clerks if they ventured out of the building."[3]

Inside, high above the managing partner's desk, a large sign mocked the depositors—the clergymen, schoolmasters, small merchants, widows and orphans who had so heavily invested in Northen Pacific bonds 7-30's. It read:

> "Buy Northern Pacific 7-30 Bonds—As Good as Government's—Secured by Mortgages and Land Grants."

Rain fell on Wall Street that day on the just and the unjust, on bulls and the bears. Despite the inclemency overhead and underfoot, the Street soon filled. Idlers turned the Sub-Treasury steps into a grandstand, pressing to the sidewalk curb line. Drawn by news of a panic, many were there to see the suicides, to hear the shrieks of ruined bankers, the moans of Wall Street's agonized victims. Despair again rode through the fabulous Street.

The dolefully dramatic scene was repeated in Philadelphia and Washington. When the wires carried news of the New York suspension to the Philadelphia Stock Board, nearly the entire membership legged it to Third Street to verify it. An incredulous policeman arrested a newsboy for shouting the extra:

"ALL ABOUT THE FAILURE OF JAY COOKE!"

A talkative, unhappy crowd gathered before the main banking house in Philadelphia's Third street, between Chestnut and Walnut. "In Washington, Fifteenth

[3] *Ibid.*

street was thronged. The clerks streamed out of the Government offices, and a criminal court was adjourned during a murder trial—judges, lawyers, witnesses, spectators and all rushing for their hats when they received the news, to join the crowd which pressed about the bank building." [4]

The calamity spread throughout the country reaching, at last, the tough, ague-ridden dwellers in sod houses along the western rights-of-way. For six years the thunder of that stormy day reverberated over the land and fair weather did not come again until in 1879 the western homesteaders and their toil-weary brethren on eastern acres produced so gigantic a flow of golden grain in the face of European crop failure that a balance of trade again was set up in our favor.

The underpinnings of Wall Street were rocked as they had not been before nor have been since on any single day. Not only did the list decline bewilderingly, as in the panic days of autumn, 1929, but stout brokerage houses went down like bowling pins. Fisk & Hatch, agents for Collis P. Huntington's Central Pacific and Chesapeake and Ohio railroad, were unable to withstand $1,500,000 in calls within fifteen minutes. Richard Schell, broker and friend of Commodore Van Derbilt, failed. Beers & Woodward went under, the senior partner rousing admiration by casually playing checkers in his Wall Street office while notice of suspension was being read on the floor.

The rain had settled into a drizzle by the closing bell and the brokers en masse moved through the mud of Wall Street and Broadway up to the Fifth Avenue Hotel at Twenty-third street. Too shaken, too apprehensive

[4] *Ibid.*

to go home for supper, or to attend Salvini's opening at the Fifth Avenue Theatre, or to dance or play euchre with the womenfolk, the brokers transferred the Stock Exchange to the cafes, barroom, and corridors of the Hotel.

On Saturday, the 19th, bankers dreaded to go downtown. "The nearer one got to the Stock Exchange," said the "World," next day, "the more ghastly did the faces become."

The Bank of the Commonwealth fell; the Union Trust, the National Trust, in New York, and thirty-three Stock Exchange houses. Twelve banks crashed in Philadelphia, scores more succumbed in Albany, Chicago, Washington, St. Louis and Toronto. Then it was that the old Commodore, eighty by now and sunning himself wintrily in his mansion at 10 Washington place, Greenwich Village, and preferring peace to war, called for his trotters and trundled down into the thick of it. He was too late to save the Union Trust. The bank had just paid out $1,750,000 as interest on bonds of the Lake Shore Railroad, a Van Derbilt property. That weakened it. So the Union Trust went to the wall and a receivership.

But Van Derbilt, unsympathetic with the inflation that had caused the panic, hating Gould, took off his coat and went to work to save the Van Derbilt stocks from collapse. He didn't attempt to bolster the whole list. Even he didn't have enough funds for that. But he was determined that Gould shouldn't batter down New York Central, Harlem and the other rails that were his pride.

"The real trouble is," said the Commodore, as he plugged his stocks, "that some of these fellows are

trying to do four times as much business as they should. Of course, they soon get short and have to bolster up their business by robbing Peter to pay Paul," he added.

Old Corneel, always averse to publicity and suspicious of newspapermen, granted one interview during the calamitous days.

"Say, sonny, lookahere," he said, in his plain Fourth Street office, to a reporter who had the audacity to beard the old lion. "Let me give ye a word of advice. Pay ready money for everything ye buy, and never sell anything ye don't own."

With the Stock Exchange in a ten-day recess—its last until the beginning of the World War—impromptu curb brokers hawked the list. The first fury of the storm had spent itself when the Exchange reopened on September 30. Banks, brokerage houses and merchants continued to suspend intermittently throughout the country. The number of failures made a dismal total at the end of each year until the upturn in '79. But the first shock of the financial panic was over. The sins of the speculators were now to be expiated by the industrialists, the merchants, the farmers and the small people, especially the small people. Expiated in an accumulation of mass misery unmatched in this richest of countries until 1893 and again, shamefully enough, in the aftermath of the Coolidge New Era. The railroad panic prostrated the North. "It was worse than a war," said Corneel Van Derbilt, reading the signs in the dreadful winter of '73-'74. Thousands of working men walked the streets, locomotives and ships lay idle, mill chimneys were smokeless, and hundreds and thousands of the dispossessed who had no share in prosperity's riches and no responsibility for the

panic, quietly died of undernourishment. The commercial classes, which literally had followed Henry Ward Beecher's doctrine that "it is better to get rich than to burn," had the satisfaction of witnessing a ragged army with banners march around Cooper Union demanding that landlords suspend rents. On the banners one could read unsettling statistics, as for example:—

> "10,000 Homeless Men and Women in Our Streets."
>
> "7,500 Lodged in the Overcrowded 'Charnel' Station Houses Per Week."
>
> "20,250 Idle Men from Eleven Trade Unions, While Only 5,950 Are Employed."
>
> "182,000 Skilled Workmen Belonging to Trade Organizations of the State Idle."
>
> "110,000 Idle of All Classes in New York City."

Presently the "New York World" would find, upon making a survey, that hundreds of the idle actually were living on scraps from the town's garbage! That thousands of the unemployed were subsisting on seventy cents a week; thousands of clerks keeping body and soul together on wages of from $5 to $14 a week.

Retail shops, from the princely A. T. Stewart's to neighborhood dry goods dealers, would proclaim "slaughter sales"—and mean it. New York City would lay off 700 clerks; 50,000 iron and steel hands would be idle around Pittsburgh's banked furnaces; A. & W. Sprague, Providence industrialists, would turn 10,000 operatives into the streets on a single day.

Starving men, hunting in packs, would raid small grocers and bakers for loaves of bread, cheeses, sacks of beans.

But despite the distress, the needy indulged in scarcely any violence. The working classes of 1873 appeared to lack the high spirit of the Jacobin lads of 1837, who needed a regiment to club them into minding their betters. "There was little radicalism," Henry Clews, whose banking house suspended momentarily in '73, commented with satisfaction.

The condition of the great bulk of industrial workers, indeed, was little changed. Whereas formerly, they worked for a pittance and had scarcely enough to eat; now, they worked not at all and had only relatively less to eat. Those were dismal days for the working class. Organized labor functioned modestly through the Knights of Labor, which proposed one big Union and meagre sociological reforms. "The New York World" acclaimed this program but the developing class of industrial barons failed to indicate its sympathy.

"The cruelties of the factory system transcended belief. In, for instance, the State of Massachusetts, vaunting itself for its progressiveness, enlightenment and culture, the textile factories were a horror beyond description. The Convention of the Boston Eight Hour League, in 1872, did not overstate when it declared of the factory system that 'it employs tens of thousands of women and children eleven and twelve hours a day; owns or controls in its own selfish interest the pulpit and the press, prevents the operative classes from making themselves felt in behalf of less hours, through remorseless exercise of the power of discharge; and is rearing a population of children and youth of sickly appearance and scanty or utterly neglected schooling' . . . The factory capitalists in Massachusetts, New

York, Illinois and every other manufacturing State were determined to keep up their system unchanged, because it was profitable to work children eleven and a half hours a day in a temperature that in summer often reached 108 degrees and in an atmosphere certain to breed immorality; it was profitable to compel adult men and women having families to work for an average of ninety cents a day; it was profitable to avoid spending money in equipping their factories with life-saving apparatus. Hence these factory owners, forming the aristocracy of trade, savagely fought every move or law that might expose or alter those conditions; the annals of legislative proceedings are full of evidence of bribery." [5]

Economic discontent flowered into the Greenback party, which opposed resumption of specie payment by the Government which would end the post-Civil War flood of cheap money. By 1878 the Greenbackers had a substantial bloc in Congress. The year 1877 saw widespread strikes, bloodily repressed for the most part and denounced as incendiary, lawless, revolutionary, etc., in Wall Street. Mr. Beecher, whose salary of $20,000 a year at Plymouth Church was augmented largely by lecture tours and royalties on his "Life of Christ," won the wholehearted approval of the Wall Street community by a memorable sermon in which he said: "Is the great working class oppressed? Yes, undoubtedly it is. God has intended the great to be great and the little to be little . . . the trade union, originated under the European system destroys liberty. . . . I do not say that a dollar a day is enough to sup-

[5] "History of the Great American Fortunes" Vol. II by Gustavus Myers. Chicago.

port a working man, but it is enough to support a man! Not enough to support a man and five children if a man insists on smoking and drinking beer . . . but the man who cannot live on bread and water is not fit to live."

The failure of Jay Cooke, "benign and affable" combination of evangelist and Blue Sky promoter, threw into vivid relief the shoddy drama of western railroad exploitation. The story of Northern Pacific is typical of the grandiose looting of the people by railway promoters through the agencies of Wall Street and the Government. Cooke's scheme was a colossal speculation, if not a swindle. "Robbery," the excluded capitalists of New York and Philadelphia called it.

Sectional disputes over routes blocked the project for a Pacific railroad until the Civil War removed the Confederate statesmen, always insistent upon a southern route, from the Congress. First the Union Pacific, then the Northern Pacific were chartered. Historians of the period strongly suspect that bribery eased the progress of both charters. There is no doubt that the successive land grants and cash subsidiaries allotted to each road—choice areas as great as States—were obtained through bribes. The Credit Mobilier scandal which occurred in 1871, disclosed the most shameless purchase of members of House and Senate by Oakes Ames, himself a Representative. In 1866 when measures affecting the Northern Pacific were pending the "World's" Washington correspondent described members of the Northern Pacific lobby in the House galleries as "looking down on the scene like beasts of prey." No one doubts that Cooke—teaching his Sunday school classes, constantly using pietistic phrases in correspondence, forcing Bibles and prayer books on

strangers and severely reprimanding a cashier for driving a coach-and-four in Central Park on Sunday—lavished favors on important members of the Government from President Grant down, and royally subsidized every influential journalist who could be seduced by gifts of stock or social recognition.

An odd fellow, Josiah Perham by name, a State of Maine man who introduced to Boston and the country the boon of cheap railroad excursions, originally procured the Northern Pacific charter. Mr. Perham seems, in contrast with his fellow promoters, to have had rather naïve notions of the social nature of a railway. He proposed to make the Northern Pacific a "People's Railroad." He intended to issue no bonds, negotiate no mortgages, and build the road through sale of $100,000,000 in common stock and the 47,360,000 acres granted him by Congress. The land grant represented a tidy sum. If turned into cash at the price asked by the Government for adjoining acreage, namely, $2.50 an acre, a sell-out would have brought $128,000,000. Among Perham's directors was Ulysses S. Grant, General of the Armies.

Perham vanished from sight after a couple of years. In 1869, Cooke became fiscal agent of the Northern Pacific and promptly contrived a scheme which for audacity seldom has been surpassed here or abroad. Cooke's principal fame rested upon a shrewd stroke toward the close of the War Between the States when he floated successfully, using the brazen slogan "A National Debt is a National Blessing," an issue of 7.3 per cent bonds. Cooke became identified with the figure 7.3. He determined to make use of this catch rate in supplying funds for the highly speculative enter-

prise of thrusting a railroad from Duluth to Puget Sound. He agreed to sell $100,000,000 in 7.3 per cent bonds, covered by a mortgage on the Northern Pacific. In return for that and a $500,000 cash advance, he was to get $50,000,000 in Northern Pacific common stock as bonus besides one-half the common stock of the Lake Superior and Puget Sound Company, a corporation formed to own and market the 47,360,000-acre land grant. In addition, as construction proceeded to a certain point, Cooke was to obtain $40,000,000 additional common stock in exchange for $5,600,000 cash payable to the original promotion pool. Altogether, $90,000,000 in common stock for using his undoubted prestige in vending $100,000,000 to the public. Meanwhile, the Government was committed to supply bonds for $320,000 at the completion of each twenty miles—that sum to stand as a loan to the railroad company. The road was not built for $16,000 a mile; some miles in the mountains honestly costing treble or quadruple that sum. But the whole cost of the road, apart from the rebates secretly paid by construction companies into the promoters' coffers, did not reach the total value of the land grant at $2.50 an acre, plus the Government loan.

It was indeed stupendously speculative—"piercing the untrodden wilderness that lay between the head of Lake Superior and the broad ocean which leads ships to the Orient"—but not without its attractions to an up-and-coming financier. It was slight wonder that Drexel, Morgan and Levi P. Morton, later Vice President of the United States but then a Wall Street banker, envied Cooke his opportunity to own a vast empire and a transcontinental road at so little outlay.

Cooke used high pressure methods, not excelled in the 1920's, to dispose of the 7.3 bonds. In newspaper advertisements, in folders, in circular letters and in public addresses, Cooke reiterated that this was "an enterprise which has never yet been excelled in the merits of its appeal to the public." The other great bankers in New York, London and Philadelphia actively opposed Cooke, dissuading clients from investment, casting doubts privately on the scheme. It was "Jay Cooke—his road, his bonds, his promise" literally against the world. The sale of bonds, never too reassuring, slackened in the early days of 1873. Cooke advanced more and more money to the builders, selling Northern Pacific common at decreasing prices on the stock market. As the other bankers watched closely, Cooke was forced to finance his operations by sale of other and stronger equities.

By mid-summer, certain of his rivals had reason to believe that Cooke was over-extended. The panic was not far off then. "General uneasiness preceded the panic—tight money, developing industrial recession, and a dangerously top-heavy financial super-structure reared upon unrestrained speculation, particularly in railroads and land. The collapse in railroad speculation precipitated the panic."[6] Money rates went to twenty-five on September 17th. One may be pardoned the surmise that possibly the money market had been influenced by smug and upright banking gentlemen, the same who resented the supremacy of Jay Cooke. In any event, the high money market and the declining securities market caught Jay Cooke & Company with their strong boxes brimming with North-

[6] "The House of Morgan" by Lewis Corey. New York.

ern Pacific equities and little else. The collapse was inevitable. Cooke had trusted in the easy availability of the stock market to float his extraordinary enterprise. The stock market, which made scandalous railway promotion possible through a readily manipulable rigging of artificial values, failed Cooke. His enemies knew a thing or two about the stock market also.

By all odds the most disastrous in the parade of economic prostrations until that of 1929, the '73 panic likewise was the first to involve the financial ruin of the petty capitalist class. Small merchants, manufacturers, professional men, widows, and others unfamiliar with the vagaries of Wall Street saw their savings and legacies vanish. Cooke's unctuous loquacity and his pious professions enlisted the small people especially. The most distressing aspect of the panic to him, if we may credit Mr. Oberholtzer, was the flood of letters from such despoiled investors.

Cooke, himself, recovered a considerable degree of affluence through what he undoubtedly regarded as a singular intervention of Providence. Virtually beggared, sometime after the panic and against the advice of his children and friends he put $3,000 in a silver mine project. A few years later he sold his interest for a million dollars, which enabled him to repurchase the fantastic Ogontz. He lived nearly a generation afterward in a smaller house on the estate, doing good, distributing tracts, and overseeing the comfort of the pupils in a fashionable finishing school which he installed in the great stone mansion.

Here then, was the panic of 1873. Cooke, who did not answer to the description of a New Pirate, scuttled by the remorseless tribe of big bankers who presently

would hold Wall Street in fee; not boarded by another buccaneer as he attempted to seize a craft in the violent give and take of the Stock Exchange. Cooke himself belonged to the big banking tribe. "A major collapse of capitalism" following a sanguine era of big profits, excess capitalization and violent speculativeness. The lure of a boom market pouring unneeded and unwise capital into the credit structure of the country; capital drawn from the outrageously disproportionate incomes of industrialists, profiting from technological advances, and promoters taking advantage of the golden tide. Swollen, disparate income rushing as a torrent into Wall Street, dizzying that susceptible community and piling up woe for the land.

What pulled the country out of the direful predicament of the '70's? In a word, agriculture: bumper crops in the western grain and livestock States, as well as in the east, with satisfactory cotton production in the south, plus an amazing chain of fortuitous circumstances. Europe was blighted in 1879 by the foulest growing weather within the memory of the oldest crofter. "In France, snow fell heavily late in the spring; in England, after a late and destructive frost, rain set in and continued almost incessantly through the summer. It was literally a sunless season. At the opening of July, people were wearing heavy overcoats in London, and in the country all the crops were moulding. By this time the impending harvest failure had begun to assume the dimensions of a national calamity. On Sunday, July 6th, by the Archbishop of Canterbury's direction, prayers for fair weather were offered in the English churches. In another month the time was past when even favorable weather would help, and

by August it was made clear to all the markets that, while the United States would yield the largest harvest in its history, every growing crop in the British Islands was practically ruined. . . . Nor was this Europe's only agricultural catastrophe. Until midsummer, there had been favorable news from the continental crops. But the blight which fell on England's harvest—the sunless July with its succession of soaking rain-storms—did equal damage beyond the Channel. France, Austria, Germany, and Russia yielded, in 1879, the smallest and poorest wheat crops in ten years; the whole continental harvest fell off fifteen per cent from the average of the three preceding years. European states, which usually exported wheat, had not raised enough to feed their own people. 'It is the American supply alone,' one contemporary critic wrote, 'which has saved Europe from a great famine.' "[7]

The American wheat crop exceeded by 28,000,000 bushels any previous yield. In September, 1,000,000 bushels a day left New York and other ports for hungry Europe. Our cattle exports, too, were greatly stimulated, so much so that British newspapers complained about a situation which they said was forcing their grazers into bankruptcy.

Concurrently, and by a turn of circumstances so favorable to this country as to convince the faithful that God's favor again rested upon the Republic, the cotton crop in India partly failed. As a consequence, the season's export of raw cotton reached an unprecedented total.

Gold flowed westward across the Atlantic instead of

[7] "Forty Years of American Finance," by Alexander D. Noyes. New York.

eastward, as it had for six long years, in increasing volume; by autumn of 1879 Wall Street had recovered its jauntiness; by December, steel production was running at capacity; at the end of the year, textile mills were working night shifts throughout New England. "The trade revival which ensued was without question the most remarkable in this country's commercial history. In the entire range of American industries, there was practically no exception to the movement." [8]

Wall Street entered the ninth decade of the Nineteenth Century, as a result of a seemingly miraculous restoration of the country's productivity, with its pockets filled, credit reestablished, anticipating the early flow of profits from all over the land and quite prepared, heedless of the lessons taught by the six lean years, to abet another profligate New Era.

[8] *Ibid.*

X—GOULD ASTRIDE THE "L"

THREE of the "Homeric pirates," Van Derbilt, Drew, and Fisk, did not survive into the Wall Street of the 1880's—the raw, magnificently brutal, Gilded Age. Fisk had been pistoled fatally on the grand staircase of the Broadway Central Hotel by Ned Stokes. Van Derbilt died, clutching at the promises of the Jesus he had ignored during all but a minute fraction of his eighty-four years. The morose Drew had passed out in almost penniless obscurity. All dead but Gould.

Gould, indeed, survived for a purpose—Jay, born Jason, descended from the Major Nathan Gold who landed at Fairfield, Connecticut, in 1646 with a Bible in one hand, a musket in the other—subtle, merciless, setting the perfect pattern of freebooter for Wall Street's emulation in all future time. The pale blue eyes which watered tenderly over orchids from Trebizond in the gardens of his atrocious mansion at Irvington-on-Hudson, grew hard and predatory at signs of distress arising from plump argosies in Wall Street waters.

By the 1880's, Gould had sacked Erie, scuttled Union Pacific, put Pacific Mail to the sword, and forced Western Union to walk the plank. His treasure chests flush with loot—next to John Jacob Astor, and along with the reigning Vanderbilt and an oil man from Ohio named Rockefeller, the richest plutocrat in town—

Gould's eye fell upon the New York Elevated system, steam roads that ran on stilts noisily up and down Manhattan Island, clanking out profits at ten cents a passenger for two corporations which owned and one which operated the lines on leaseholds. A plump argosy! And here, on his quarterdeck, paced Gould, nervously planning its capture. No single buccaneering stroke in the history of Wall Street transcends that operation in callous cleverness. It epitomized the whole panorama of Wall Street piracy during the Gilded Age. The profoundly cynical, remorseless plundering of the assets of a Continent in that easy money period may be examined, in effect, microscopically through a study of the raid on the Elevated.

The year was now 1881. Two years of good times, with steadily rising prices, had blotted out of Wall Street memory the dreadful stagnation from '73 to '79. The stock market was bullish. Speculators flourished. Incorrigible promoters again were overbuilding the railroads. European gold—English, Dutch, French, and German—again was yielding to the lure of seven per cent bonds, in a spirit of commendable forgiveness, considering that $600,000,000, according to an estimate in the "Banker's Magazine," had been lost by foreign investors either through fraud or bankruptcy during the panic years. Between the beginning of 1880 and the end of 1882 the country's rail mileage was extended by thirty-four per cent, "of which not more than one-third was justified by existing business." [1]

The stock and bond values of all the railroads increased by $524,411,843 in 1880, according to "Poor's Manual." Largely "water," or gravy, depending upon

[1] "The House of Morgan," by Lewis Corey. New York.

the point of view or interest. But the net earnings in that year went up by $39,000,000. Fortunate shareholders in one railroad were enabled to buy thirty-year, six per cent bonds at twenty cents on the dollar—with their shares selling between $80 to $100 at the time. The Chicago, Rock Island and Pacific declared a 100 per cent stock dividend and still disbursed seven per cent in dividends; the Louisville and Nashville uttered a 100 per cent stock dividend and continued to pay six per cent profits; the Chicago, Burlington & Quincy paid eight per cent after a twenty per cent stock bonus. "Yet the extent to which all these companies continued to prosper and profit under this load of improperly incurred liabilities was perhaps the strongest of all testimony to the soundness of the trade revival." [2]

Buccaneers plied the busy waters of Wall Street, singly and in fleets. And among them Gould, boarding this railroad, then that, stood first, the acknowledged Great Captain of the disreputable crew. In 1880, he forced the prospering Union Pacific, newly righted after its scandalous beginnings, to buy the puny Kansas Pacific, share for share, to avoid capture. The Union Pacific, a noble trunk line by now, was earning and paying six per cent; the Kansas Pacific, a jerkwater over the mid-Continent plains, earned not a sou. He and his mates mulcted the owners of the Union Pacific, the shippers, the humble dwellers along the route, of assorted millions, buying for little or nothing every share of Kansas Pacific available and trading their holdings, when the secret deal reached consummation, for equivalent shares in Union Pacific. It was robbery by force.

[2] "Forty Years of American Finance," by Alexander Dana Noyes. New York.

"Gould mastered more completely than any other promoter in our history the art of buying worthless railroads for a song, selling them at fancy figures to a solvent corporation under his own control, and then so straining the credit and manipulating the books of the amalgamated company as to secure his own safe retreat through the stock market. He was not a builder, he was a destroyer." [3]

Wall Street hummed with new "financing." Enormous productivity, created by the foresight, inventiveness, and toil of man, abetted by the Providence which brought repeated wintry summers, floods, or droughts abroad while it caused a "growing" sun to beam on grain and cotton lands in the favored Republic, sluiced gold into Wall Street. Industries, factories, mines, utilities, etc., earned boom-time profits, the major part of which, according to custom, was skimmed off by the Stock Exchange.

The speculative interest in stock and security markets left nothing undone to impair the strength of the trade revival. "Had it not been for the solid foundation underlying the trade revival of 1879, they would have wrecked the movement. They began with an attempt, in the winter months, to make their own price for wheat, and did succeed in forcing the market up to such a figure that for a time exports were actually blocked, and a fleet of grain vessels, sent to New York for charter, lay idle for weeks at the city wharves. The result of this experiment was a demoralized wheat market, and eventually, in the early part of 1880, a break of thirty-four cents a bushel." [4]

Similarly, early in 1880, the speculators tried to get

[3] *Ibid.* [4] *Ibid.*

rich quick by manipulating the price of steel. In February 1880, steel sold at $42 a ton; by June it was down to $23, adding burdens in both movements to consumer and producer. Minor booms and collapses likewise marked the course of the stock market, violent convulsions, all the result of greedy whims on the part of operators.

But the 1879 recovery had stamina. A succession of fat years followed for the farmer, then, indisputably, the economic backbone of the country; a series of lean years forced Europe to buy the staff of life in this country. The Republic stirred into new life as a youthful giant recuperating after a long illness. And from every quarter of Europe, especially the British Isles, Scandinavia and Germany, energetic settlers arrived by the shipload to entrain for cheap land in the west. In 1882, the number of new population units, fresh producers and consumers, to reach this land totaled 788,992, almost double the immigration total for 1873. The domestic market for consumers' goods, at that rate, would be boundless.

Darious O. Mills, with bright California mintage, had astonished the town by building a skyscraper in Broad Street, a hive 120 feet high designed to house 1,200 busy, white collar bees. Out in Kansas and Missouri, Jesse James played "hanky panky with pursuers." General Grant, still wearing, so gratefully, the halo conferred by Appomattox, joined the Wall Street firm of Ferdinand Ward, the "young Napoleon of finance," that year. Ward put twenty-five moist, black Havanas on the General's desk each morning—and in 1884 was to crush him in dense ruin; a ruin which plunged Wall Street into a "little panic," cost the

Grant family and adjuncts more than a million and soured the unhappy old warrior's last months while he steadily labored at Mt. McGregor to finish his memoirs before cancer finished him.

The metropolis, fed by oil, tin, iron, copper, lumber, coal and railroad millions—the usufruct of the stored wealth of millenial ages, suddenly released in the bonanza period—struck a giddy pace that Winter. The sleighing in Central Park was pronounced capital. Moralists, forever on the rack over New York's heedless indulgences, condemned the "disgusting society dances, the Racquet, the Wave, and the Telephone." Social observers fretted over the incentive to a life of sin supplied to shop girls by wages as low as $3.50 a week. A buttery, ecstatic chronicler of the period, seeing things from another vantage, rhapsodized thus over the new setting for the plutocracy in the Gilded Age:

"There is emphatically no place like New York. Here are some of the finest stores in the world and mansions of which a Doge of Venice or a Lorenzo de Medici might have been proud. Here are the most beautiful ladies in the world, as well as the most refined and cultivated; here are the finest theatres and art galleries and the true home of opera in this country; here is the glitter of peerless fashion, the ceaseless roll of splendid equipages and the Boise de Boulogne of America, Central Park; here there is a constant round of brilliant banquets, afternoon teas and receptions, the germans of the elite, the grand balls, with their more formal pomp and splendid circumstance; glowing pictures of beautiful women and brave men threading the mazes of the dance; scenes of revelry by night in an

atmosphere loaded with the perfume of rare exotics, to the swell of sensuous music." [5]

That assuredly was New York in what Charles A. and Mary R. Beard called "the grand era of acquisition and enjoyment." It was as the beneficiaries of the "grand era" perhaps saw themselves—a nabob's-eye view while wheeling in a newly crested carriage from a brand new French chateau to the foot of Fifth Avenue and southerly to Wall Street.

There are other views, as vide that of the Beards: "Even the Orient was forced to yield up graven Gods of mercy and complaisant Buddhas to decorate the buildings of men absorbed in making soap, steel rails, whisky, and cotton bagging and to please the women who spent the profits of business enterprise. The armor of medieval knights soon stood in the halls of captains of industry whose boldest strokes were courageous guesses on the stock market or the employment of Pinkerton detectives against striking workingmen; while Mandarin coats from Peking sprawled on the pianos of magnates who knew not Ming or Manchu and perhaps could not tell whether their hired musicians were grinding out Wagner or Chopin. Grand ladies, who remembered with a blush the days when they laundered the family clothes, shone idly resplendent in jewels garnered by a search of two hemispheres. European tutors were imported to teach the 'new people' and their offspring 'parlor and table etiquette,' music and 'appreciation,' as Greek preceptors had served the Roman families in the time of Cicero." [6]

[5] "Fifty Years in Wall Street," by Henry Clews. New York.

[6] "The Rise of American Civilization," by Charles A. and Mary R. Beard, New York.

Still another view might be had from the "L," whose cars, drawn by locomotives with mushroom funnels, fumed, snorted, bucked, and bustled north and south, through the depraved slums of Second and Ninth avenues, past the goat gulleys and squatter settlements in Central Park; but almost out of hearing of Fifth avenue. Quite another New York was visible from the "L," its engines dropping cinders into the boas and bustles of lady shoppers on Fourteenth street, impartially sifting soot by night over the sealskin sacques of professional girls bound for the Cremorne Gardens, the Aquarium, the Haymarket, the Buckingham, and like dens of gaiety under Sixth avenue's yellow gas lights.

The "L," thundering over Chatham Square, dawdling out to Harlem and the Bronx, driving hotfooted New York northerly; hauling the dollar-a-day laborer, the $3.50-a-week clerk, the $25-a-week executive at a dime a ride. It is hard to understand, fifty years later, how enormously significant rapid transit on stilts appeared to the New Yorker of 1881. The pulse of the metropolis seemed to have been accelerated; the town somehow beat time to the clank of the stubby locomotives—one of which afterward was driven by John F. Hylan, a later Mayor, renowned for his advocacy of the five-cent fare—as they hurried up and down the skinny trestles. The "L," whisking a man from Yorkville to the Battery in a quarter the time taken by the horse cars, had transformed New York outwardly from a huge provincial port into a world city.

To Gould, the roar of the "L" was so much irritating bluster. A line ran to the rear of the building in which he had his office, 195 Broadway. Perhaps he had mounted the steps and exchanged his dime for a ticket

along with poorer folk. That is unimportant. The "L" to Gould was not a means of swift transit from home to office, and return. The "L" was vulnerable prey for a foxy corsair.

Gould, his melancholy eyes brooding deceptively over the "L" system and the swollen profits obtained from hauling many millions of passengers a year at a dime a head, knew its vulnerability. He knew, as did others in Wall Street, that the Manhattan Railroad Company, which operated the two elevated lines, the Metropolitan and the New York, had illegally issued $13,000,000 in common stock. That stock, verified as good by some of the gravest nabobs in Wall Street, had been absorbed in large part by the public in small holdings. Originally chartered at $2,000,000, the Manhattan, controlled by the principal powers in the Metropolitan and New York, speedily had acquired leases to the two lines. It was a stock jobbing transaction pure and simple, its only purpose being to line the pockets of the promoters. Both elevated roads were tainted with bribery. Little doubt existed, after the Hepburn Legislative Committee's inquiry in 1879, that $650,000 had been spent corruptly to obtain the franchise for the Metropolitan. It was assumed that at least as large a sum had been necessary in the case of the New York Company franchise. These franchises were acquired during the reign of William M. Tweed at City Hall and at Albany. Fraud showed itself also in the construction of the lines, the officers and directors of the franchise-owning corporations organizing a construction company, the New York Loan and Improvement Company. It was a device made familiar by railroad promoters.

Thus the elevated companies were rich, corrupt, disorganized, desirable, and hence, as Uncle Dan'l Drew might have said, "sheep ripe for the sheerin'."

Gould went alongside the Elevated lines in May, 1881, in a raid which was to be unmatched for finesse, for shrewd manipulation of Stock Exchange, press and bench; a bold job of piracy which would enrich Gould and the parsimonious Russell Sage, despoil hundreds of shareholders, persuade Grover Cleveland, as Governor, to veto a five-cent fare bill and, eventually, beggar Cyrus W. Field, layer of the trans-Atlantic cable and vain humanitarian. Gould, Sage and Field shared in the enterprise.

The principal arena of the conflict, necessarily, was the Stock Exchange, the Thieves' Market where the self-conscious plunderers of the Gilded Age realized on their loot. Without the Stock Exchange and the ready convertibility of certificates—the liquid quality so esteemed by apologists for Stock Exchange economics—the pirates would have waged their infamies in vain.

Gould maneuvered into action obliquely by means of a pliable Attorney General and Supreme Court Justice. On May 19—with shares of the unsuspecting Manhattan Elevated quoted at 55—Attorney General Ward obtained from Justice Donahue leave to begin suit to annul the holding corporation's charter. Black irregularities, including that troublesome, unauthorized $13,000,000 common stock issue, were cited. The Gould-owned "New York World," which would be sold to Joseph Pulitzer in 1883, wheeled into line next day with intimations from the financial editor that the Manhattan's directors might be "amenable to the statutes

against conspiracy." The "World" called for an inquiry by the Stock Exchange's Board of Governors.

In June, a second salvo fell about the Manhattan. A lowly shareholder successfully sued to enjoin the Manhattan from paying dividends to shareholders in the Metropolitan. On July 1, the third blow fell. A similar injunction, affecting the New York Railway Company, readily was granted George Lespinasse, another shareholder. Both litigants were represented by Lawrence and Waehner, attorneys for Washington E. Connor, a celebrated broker who traded for Gould. Lespinasse turned out to be an agent for Jose de Navarre, one of Gould's crew.

Presently Field, a director in New York Railway, and still basking sunnily in the applause of his countrymen for the trans-Atlantic cable enterprise, sued to divorce his corporation from the Manhattan.

The strategy, obviously enough, was to create a panic in the ranks of Manhattan shareholders; stampede them into dumping their shares, creating a bear market in which Gould could pick up control at a "reasonable price." It succeeded. Under the first cannonading, the price broke from 55 to 29. It fell to 25, then to 20. By the beginning of August any temerarious investor could buy Manhattan—perfectly sound and prosperous, a going corporation—at 15½.

The Manhattan's colors were struck; the old crew already on the plank.

Gould, who had sold heavily short, began to buy, to "cover" and for control. Gould and Sage and Field. Gould in a private office at the Western Union building, 195 Broadway, dictated "buy" orders to a nosey young stenographer, Edward Bok, later and for many years

the editor of a wholesome journal for females. Relentlessly Gould pressed his advantage. He had Sage elect him a director of the Metropolitan. Gould, the rusty Sage, the sanguine Field, signed an affidavit that the Manhattan Company was "hopelessly and irretrievably insolvent." An obliging Justice, Westbrook, appointed receivers for the Manhattan. Throughout August and September, Manhattan did not get above $23 a share.

The Manhattan Company was raked finally and sunk late in September when Judge Westbrook, sitting comfortably in Gould's office, signed an order authorizing the receivers to issue certificates of indebtedness. The Manhattan, which in May had been a prosperous carrier, now passed for bankrupt although its revenues remained unchanged. Gould next opened fire on the Metropolitan and New York.

On October 18, Gould's financial editor reported Manhattan opening at 45, closing at 43, over news that the three Elevated corporations had come to an agreement. "As I said long ago," the editor remarked, "the Elevated railroad franchise is too big a thing to give away, and I never believed but that Manhattan would be rescued by men who have the brains and means to make the most of it."

Judge Westbrook promptly vacated the receivership. By November 9, Manhattan stood at 55—under new control.

The "New York Times" took a different line from the "World." "There is no more disgraceful chapter in the history of stock jobbing than that which records the operations of Jay Gould, Russell Sage, Cyrus W. Field

and their associates in securing control of the Elevated railroads of New York City," said the "Times."

Field, who seemingly lacked a pirate's heart, did not enjoy his booty for long. Gould and Sage—who refused for three months to repair a broken window pane in the Fifth Avenue end of his mansion, but whose widow endowed a formidable sociological institute—enjoyed theirs to the end. In 1886, Field broke with his associates and tried to buy Manhattan in the open market. His bull pool ran the price to 175, where Gould and Sage cornered him.

When Field approached his end in 1892, he accepted carfare to his summer home from J. P. Morgan.

Gould, neuralgic floriculturist and master manipulator, showed in the Elevated raids his unique talent for disorderly conduct. He did not conceive, promote, finance, or build the Elevated railways. Others performed those functions by means fair and foul. He merely seized what others had created through the technic of the stock market and a control of bench and press, destroying in the process the property of small holders, and unsettling all other equities. Once in control he promptly pumped additional quantities of water into the capital structure of the "L," following the traditional prerogative of piratical conquerors, in Wall Street, thus saddling the car riders of the metropolis with an unequal burden of capital charges from that date until the City of New York assumed part of the load by decreeing a five-cent fare.

Gould was not long, however, for this world and in the 1880's the days of his type of marauder were numbered.

The Trust Era drew nigh. A strictly ethical lawyer

from Oil City, Pennsylvania, Samuel C. T. Dodd by name, had reached into Holy Writ and the processes of the Surrogate's Court to discover a device by which the already greatly ramified oil interests of the Rockefeller group could be combined under a single direction. Dodd, one of the earliest corporation counsels who devoted his whole energies to a single client, applied the trust idea—hitherto used only to characterize the relationship between a trustee and an estate, an infant, a ward or a widow—to corporate enterprise in the late '70's. The word "trust" in its new connotation did not enter the language until midway of the '80's.

Dodd's idea plus the sheltering tariff for infant industries, plus the iniquitous practice of freight rebates and drawbacks for favored corporations, opened a new and greatly enticing vista to predatory Wall Street. Big Business would appear; Big Business having no use for pirates in the Gould tradition. Instead of seizing valuable properties exclusively by trickery in the stock market, the new sort of plunderer would promote trusts, consolidate competitors, bribing the reluctant by exorbitant prices, and dispose of the vastly overcapitalized securities of the product to an ever gullible public through an even more sinister kind of market manipulation. All this, in the name of efficiency, reduced costs, harmony and the great god of the American commercial world-bigness.

Under the new dispensation, the old time pirates, looting fat merchantmen on the Wall Street seas, would appear to be, by contrast, mere pikers. The new men would organize the merchantmen for their own defense, extracting as pay for their acumen profits which would far surpass the gains of the pictorial freebooters.

XI—GIANTS SHAKE THE EARTH

THE raffish reign of the high pirates, extending from the post-bellum bonanza through the Gilded Age of the '80's and the doleful '90's, came to a climactic and somewhat belated end in a brute collision of money power between Morgan and Harriman; an encounter that shook the Continent. Their anachronistic collision, occurring in the noon-tide of the fabulous trust period, ravaged Wall Street, beggared big traders and feebly predatory speculators from the Middle Class, disarranged international credit and knocked the daylights out of as dizzy a New Era as the Republic had yet marvelled at—a New Era rated, by quite sober social economists, as comparable in speculative delirium with the South Sea Bubble.

This vastly bizarre event took place in the Spring of 1901, a crowded twelvemonth. Morgan had just organized the Steel Trust, an integration of industrial force not surpassed to this day. The benign McKinley, an earlier apostle of "rugged individualism," had been inaugurated in March amid the satisfied acclaim of Wall Street. He would perish from an assassin's bullet in Buffalo the next Fall, and Theodore Roosevelt, booted and spurred, would take the reins over a people troubled to the grass roots by the newly organized form of plundering known as trusts. The century was fresh, the American people blessed by five years of bumper crops, prospering under the will of God because of droughts

and floods abroad, were busy, alert and proudly digesting the remnants of old Spain's over-seas empire. Accumulated and disproportionate profits flowed as a strong tide into Wall Street, erecting the familiar structure of inflated credit; a structure, as usual, insecurely based and ready to topple under pressure. The Stock Exchange war between the first J. Pierpont Morgan, banker, and Edward H. Harriman, railroad magnate, over the susceptible Northern Pacific, applied a pressure which seems, at this date, to have been a bit excessive.

While the grand new century was opening amid the exultations of the well-placed, the under-privileged were failing to share the grandeur of the New Era. That was according to custom. The phrase "Captains of Industry" was coined at a dinner tendered Prince Henry of Prussia by 100 multi-millionaires while labor leaders complained that in New York, show window of the Continent's wealth, men, women, and children worked ten to twenty hours a day in the nervous sweat shops of the lower East Side for only enough to sustain life. In the Pennsylvania anthracite fields, it was brought out, several thousand boys, from eight years upward, toiled below the ground because their fathers, at work twelve hours a day, could not earn enough to feed, clothe, and shelter their families. As usual, material misery haunted the side streets north of Wall on Manhattan Island while other insufficiencies distressed the individuals who, by caprice, had fallen heir to the profits of a continuing New Era. "Art collections adorned the masters of money, but beneath was an emptiness of creative cultural life, the scars inflicted on nature by ruthless exploitation, the squalid factory towns, New York City's vile

slums, Pittsburgh's steel hells, Chicago's smelly braggadocio, Boston's cobwebby culture. Before the Civil War there had been the beginnings of an American culture; it was crushed by feverish, unregulated industrialism." [1]

Morgan, fierce, magnificently self-sufficient, ruthless as any Tartar Khan, who, in the Dark Ages, filed through the Georgian passes into Europe, had no business, under the terms of his own dispensation in the frantic stock market of May, 1901, where he and Harriman fought a gigantic knockdown and drag out, much as the earlier Van Derbilt and Gould. The great rationalizer already had articulated his gospel of the "community of interest." Morgan, strictly speaking, never operated as a high pirate although a sentimental bias may be deduced from the name he gave his yachts—Corsair. The greatest promoter of them all disdained the individualistic, cut-throat methods of that ilk. Appropriating the extravagantly profitable formula of the earlier trust promoters, Morgan had by this date perfected a deft and plausible technic for taking title to a Continent by means of the Stock Exchange and without the hazards of the old way.

Harriman belonged, right enough, in that kind of brawling conflict. The last of the high pirates he was. Unrepentant, vaguely archaic in the new scheme of Morgan's creation, the astigmatical little warrior enjoyed the collision. He fought for reasons of prestige, for millions, for the attribute known as power, and for the sake of a misty, frustrated vision of a transportation system bearing his name which should girdle the earth.

[1] "The House of Morgan" by Lewis Corey. New York.

Massive specimens were Harriman and Morgan of a lordliness so antique as to be atavistic; unchecked, self-willed, thoroughly anti-social, humorless and successful. In their life times, they achieved mythological proportions. The Morgan who courted Anglican prelates and collected, among other rarities, a lock of Marie Antoinette's hair and Thirteenth Century chasubles, was known, after a journalist's apt characterization, as "Jupiter." A satirical Archbishop, reaching back also into pagan times, dubbed him "Pierpontifex Maximus." The Ned Harriman, one-time $2 broker on the Stock Exchange, a Long Island clergyman's son who unsparingly demanded riches out of his world, became the "Colossus of the Roads."

Mighty champions, but mightily as they grappled, in the bright Spring months of 1901, the weapons they employed were mightier. They hurled vast railroads, empires of steel levying tribute on three-quarters of the trans-Mississippi country—the Northern Pacific, the Union Pacific, the Great Northern. They used as shafts the resources of the greatest banking houses in Wall Street—J. P. Morgan & Co., Kuhn, Loeb & Co., the National City and their satraps. And in the shadows ready to support Harriman lurked the incalculable power of the Standard Oil octopus with $60,000,000 net gain a year. As they fought, they locked the Stock Exchange in a giant vise; they created a panic and obliterated a New Era, marked by much the same stigmata as that of 1926-1929.

No wonder the stock market, already profoundly hysterical, reeled. "The situation of 1901 was one which turned men's heads. The country seemed to have reached a pinnacle of prosperity from which nothing

could dislodge it. The profits of our incorporated enterprises seemed to have no assignable limit. American capitalism pressed upon every degree of investment. The most reckless and foolish speculation was apt to achieve success. Looking at the matter philosophically, there need be no wonder that the word went forth, in financial circles previously noted for conservatism, that old precedents of finance were obsolete, that it was no longer necessary to judge the present and future by the past." [2]

Here, then, the situation stood in Wall Street when Harriman and Morgan began their fight: a frenetically optimistic business community; banking and industrial peace achieved; the profits and surplus of the country in process of absorption by the traders, promoters, and the sharpers there thriving; a welter of trading in millions of shares of stock, largely water, thrown on the market by the trust promoters, the sublimated Get-Rich-Quick Wallingfords—". . . the gorgeous personalities of that era . . . the inspiration and model of aspiring youth, the glass of fashion and the mold of form, the figures pointed out as they strode through public dining-rooms behind proudly obsequious head-waiters, in a hush of awed admiration." [3] Later, as Mr. Sullivan points out, the plating wore off these splendid fellows and they came to be regarded as derisively as the "butter-and-egg man" of the Coolidge New Era. Then they gladly accepted for themselves the resonant title of "Captain of Industry."

[2] "Forty Years of American Finance" by Alexander Dana Noyes. New York.

[3] "Our Times" by Mark Sullivan. Vol. II. New York.

Whence came the profits which fattened Wall Street? What underlay the McKinley New Era?

The answer is plain, and swiftly told. The country, as in the post-World War expansion of 1923-1929, had experienced another marvellously productive period, beginning when, in the Fall of 1896, bumper crops in the west and south drew gold from Europe to a famished land, checking the distressful panic dating from '93, and helped elect McKinley with votes from abruptly reconciled grangers in the Mississippi Basin, one-time "Valley of Democracy."

Providence intervened in 1897. It was 1879 all over again. A burning sun desiccated wheat crops in France, a rainy harvest curtailed the Russian crop and storms unseasonably flooding the Danube cut down the yield in Austria and the Balkan States by 127,000,000 bushels under 1896. The wheat yield in all Europe fell by 350,000,000 bushels below that of the preceding season. In this country, 5,000,000 additional acres had been put to the plow in the wheat States. Fortune smiled, the American crops ran 103,000,000 bushels ahead of the preceding year and fetched $122,000,000 more in gold across the Atlantic than had the 1896 export. Wheat sold for a dollar in the Chicago pit.

For the first time since 1891, gold moved naturally from Europe to the United States. The 1897 crop brought $120,000,000 into the Treasury. Owing to the net gain of this enormous agricultural export, plus a rapidly increasing world gold production, the Government's reserves advanced from $44,500,000 in February, 1896, to $245,000,000 in mid-Summer of 1898. The farmer, as in 1879, had relieved the country's depres-

sion. "In both cases it was a European famine and a bumper crop at home which lifted us happily over the rough places of the road."[4]

Hand in hand with this agricultural revival went increased export of manufactured goods, a trend so marked that at the end of 1897, it became noted throughout Europe as the "American invasion." An Austrian foreign minister, Count Goluchowski, alarmed European industrialists in a speech wherein he pointed out the steady increase in the flow of fabricated goods from this Continent to the Old World. What had happened was that American manufacturers, confronting a drastic decline in the home market from 1893 until 1897, had put their wits to work. Already advantaged as a result of superior Yankee inventiveness, they concentrated on improving mass production devices. With labor eager to work at any kind of a job at any price, raw materials cheaper than ever, and driven by necessity, the American industrialists began to undersell not only in the backward Continents but in the industrial countries of Europe as well. Europe emerged from the financial stringency brought about by the failure of the great London banking house, the Barings, in 1890, earlier than did this country. As that market expanded, the trading instincts of the Yankee were sharpened. The result was that in 1899 our foreign trade in manufactured goods reached the total value of $339,000,000 as against a mere $158,000,000 in 1893. In 1897, the year of the great famine in Europe, our total exports surpassed $1,000,000,000. By 1901, we vended goods abroad to the sum of $1,500,000,000.

[4] "Forty Years of American Finance" by Alexander Dana Noyes. New York.

Steadily from 1897, the country tended to its knitting and thereby waxed fat and, on the whole, prosperous. Nor did the Spanish-American War impede the rapid recovery from the depression of the '90's. It was more like a holiday, economically and sociologically, imposing no strain on the country's credit or resources. A domestic loan of $200,000,000 floated popularly to support the war was seven times oversubscribed. Presently Wall Street would, for the first time in history, be lending funds abroad, to England and Germany. There even was talk in 1901, so buoyant is the spirit of financiers, that the United States rapidly would pass from being a debtor to a creditor nation and that Wall Street was about to supplant Lombard Street as the world's money market!

The railroads, blighted by the panic of '93, first felt the influence of agricultural revival. In 1895, more than one-fifth of the country's mileage or 37,855 miles, represented by 169 corporations, was in the hands of receivers. Dividends were passed on sixty-one per cent of railroad equities. The roads in bankruptcy had $2,400,000,000 in securities listed on the Stock Exchange. Naturally, their road beds were run down, their steel worn out, and much of their rolling stock obsolete. Bumper grain and cotton crops and a profitable live stock market taxed the railroads. It was hard to find enough cars to move the grain and cotton to the seaboard. Shipments become bottle-necked when locomotives and equipment break down. In the years from 1896 to the end of the century, the railroads reaped their own fat harvest from the chore of moving the fruits of the soil to market. Prospering, the roads began to buy steel heavily. The iron and steel mills doubled,

trebled, and quadrupled their output as prices expanded, multiplying profits. In the year 1899, the Carnegie Steel Company returned a net gain for the partners of $2,000,000; in 1900, $40,000,000.

Taking note of, and relating as cause and effect, first, the agricultural revival, secondly, the enormously quickened demand for steel by the railroads consequent thereto, and thirdly, the overleaping expansion of steel production and prices, we may properly conjecture that the Steel Trust was made possible only through the act of God which simultaneously willed droughts to Europe and bumper crops to the United States in the closing years of the Nineteenth Century. It seems reasonable to assume that the stimulated productivity in those years inflated both the steel market and the stock market, making the consequent Steel Trust attractive on the profit side and possible on the speculative side. The Steel Trust was corollary to farm revival. Morgan, nor any other promoter, would have found a merger of steel interests attractive in a stagnant market for ingots, etc. Without the dynamic flow of money into the stock market, demanding investment or at least an opportunity to pass from one hand to another, the incredible quantity of water (Carnegie in a conversation with Morgan called it "air" not water) poured into the Steel Trust capital structure could not have been absorbed. Indeed, without a gullible middle class, richer than it knew what to do about and besieging the Stock Exchange as the principal, most alluring outlet for its savings, it is doubtful if Morgan would have perceived the unique advantages in the way of economy and efficiency which would inhere to the steel trade through trustifying.

That goes for the whole fantastic trust movement. The trusts, so called, were not the product of any special depravity on the part of the promoters although press, pulpit, and political convention reflected such a view rather vehemently. The trusts were the children of the McKinley New Era, in itself the offspring of fortuitous circumstances having more to do with the weather than with man's foresight, intention, or skill. Morgan promoted the Steel Trust because he sensed, in his domineering, tough-skinned way, that the so-called investing public would stand for it. The people had the money to buy steel securities if they wished. That was where the Stock Exchange came in. There was a show window, a combined "department store" and gambling casino, where his wares might be displayed and eagerly coveted. The only thing remarkable about the Steel Trust's organization was its somewhat dizzy proportions. Morgan did not invent the trust formula. We have seen how Lawyer Dodd devised the scheme of uniting various corporations under a common control in the early 1880's. We know that the holding company pattern for taking over a number of competing or related corporations and issuing a fresh and extraordinarily inflated batch of securities thereon was a favorite expedient of the Gilded Age. The Sugar Trust, which united eighteen refineries, closed eleven and immediately imposed monopolistic prices on the public, was brought about in 1888. At about that date, an enlightened financier sheltered eighty distilleries under a common financial roof tree, forming the so-called Distillery Trust, shutting down all but twelve, and fixing prices to saddle a load of water on the producing units. Independent distilleries were paid whatever price they

named for their companies and enormous fictitious charges were added. "In organizing the Standard Distillery and Distributing Company, for example, the underwriters, for every $100,000 cash advanced to buy plants, received $250,000 in stock and the promoters another $150,000." [5]

That practice was usual among the promoters of the later Gilded Age, and the doleful '90's, and the McKinley New Era. No one in the industries cared, and certainly not the promoters, whose bonuses were fixed upon the aggregate of the capitalization. The process went on from the late 1880's until the panic of 1893 withdrew, as usual, the savings of the people from the stock market. In truth, certain commentators hold that it was the collapse of the National Cordage Company, a grievously overcapitalized trust in which Morgan was a director, that shook down the credit structure of the country in 1893. The Cordage Trust had fallen into the grievous practice of paying cash dividends out of capital invested by the public. By the end of the century, virtually every important industry had been in greater or less degree trustified.

Halted by the breakdown of the system of production and distribution during the middle '90's, the movement toward integrating industry—a similar development abroad has more recently been termed the "rationalizing" of industry—was renewed in 1898. Until that year, the eighty-two combines into which various trades had been formed showed a rather timid total of a round billion dollars in capital equities and commitments. But in the single year of 1898, after the grain markets had reversed the flow of gold over-seas and the Stock Ex-

[5] "The House of Morgan" by Lewis Corey. New York.

change again had become bloated with surplus savings, trusts were formed with a capitalization of $916,000,000.

Hitherto, the job of organizing trusts, being a novel one with little precedent and of a somewhat flighty nature, had not attracted the respectably-intrenched bankers. Trust promoters dined below the salt. As a matter of fact, they were of all conditions, ranging from John W. Gates, proverbially but probably not actually ready to bet $1,000,000 on any hazard, to William Nelson Cromwell, promoter of the deal by which the French owners of a white elephant in the Panama Canal unloaded on the American Government; Cromwell, who lived into 1932, a gentleman of the old school, benevolent toward France, an exquisite worldly companion, pictorial with Buffalo Bill mane and mustaches. Charles R. Flint, a voluble bore, acclaimed himself the "Father of the Trusts." Flint was responsible for combinations in rubber, coal, shipping, wool, and that American staple, chewing gum. "He developed," writes Mr. Mark Sullivan, "a technique of the art, which he explained at length in his autobiography." On the whole the promoter was a desperate fellow, in the imagination of the average man, a strange mingling of stagecoach bandit and pawn broker. They "were portrayed as stout, full-blooded ogres, clad in checked suits with dollar-signs glistening upon their loud apparel. Diamonds glimmered from their broad expanse of snow white shirts. High hats were held in their hands. And the poor, down-trodden public was represented as a meek, docile little fellow, seeking to avoid the all-conquering foot of the monopolistic giants." [6]

[6] "Frankenstein Inc." by I. Maurice Wormser. New York.

Scarcely a neighborhood in New England, the middle Atlantic and the Central and Western States but felt the effect of the promoter. A new trust meant the shutting down of anywhere from two to twenty mills, each one oftentimes the major support of a small town. A furious outcry arose in the fag end of the Gilded Age, a middle class rebellion which, coupled with labor troubles and the Populist uprising, enforced adverse legislation in numerous States. But the promoters were too slick for the law-makers.

So here we are in the midst of the McKinley New Era. The profits of the trust promotion obviously had become colossal. The age known to sympathetic historians as that of Big Business is in its flower. And the Stock Exchange, heretofore an arena for individual enterprise, has become an engine of speculative absorption by means of which the developing race known as "Captains of Industry" may bloodlessly seize not one corporation, but many, at a stroke, and lay, eventually, the productivity of the Continent under tribute.

The Stock Exchange, arising as a rather shoddy expedient by means of which to market a public debt, developing under the scornful eye of great merchants through the relatively crude stage of the new piracy, likewise flowered. Here was a machine by means of which, preying upon the ruling passion for gain of the owning classes, the captains of big business could acquire the savings of others for the use of their enterprises and wherewithal richly to stuff their private wallets.

What more natural than that J. Pierpont Morgan, never an innovator but always watchful for the main chance, should himself embark as a promoter in the glowing noon-day of the Trust Era! Mr. Morgan's

eulogists, in the absence of picaresque qualities that somehow contrive to warm the heart, or of evidence of surpassing ingenuity, make him out to be a monstrous clever organizer. That he was. He stabilized the railroads, enforcing by means of his blunt imperiousness, a "community of interest" there and an end to ruinous rate wars. His instinct, we must deduce, was for peace. The sort of peace which traditionally prevails in a den of thieves. In his career, he suppressed discordant elements, organized and financed trusts and mergers, loading extraordinary capital burdens upon producer and consumer and, a fact not often noticed by commentators, sharply dividing the interests of the industrialists, farmers, merchants, and the consumer from that of Wall Street. Much has been made, in times of declining markets, of Morgan's gruff assertion that it never pays to sell the United States short. Right enough, for him. His enterprises were built with an eye to the long position. When he added at least $700,000,000 to the capital structure of the elements making up United States Steel, he obviously anticipated that the mills would produce and the country use enough steel within the next few years to give value to the water and make profitable the $150,000,000, roughly, which he and his syndicate partners appropriated as their share of the gains. He sold the United States long, true enough, and the common stock in United States Steel, which he managed to dispose of in the bull market of 1901 as high as $55 a share, went for as low as $8.75 a share two years later. The public here and abroad, in buying Steel Common when James R. Keene, "the cougar of Wall Street," and the subtle Harry Content introduced

it to the Stock Exchange in April, 1901, paid for Mr. Morgan's hopefulness.

The surmise naturally occurs as to what would have been the fate of United States Steel had Mr. Morgan and his associates capitalized it upon the basis of current values and earnings at, say, $800,000,000. A bystander may well inquire if, perhaps, that might not have been the decent way. Unburdened by water, might not steel have been produced at a higher quality and lower price to the social advantage of everyone? Might not a generation of broad-backed, immigrant working men have escaped the devitalizing effects of a twelve-hour day, seven-day week, amid the grimy horrors of Pittsburgh's steel suburbs? Would the high tariff structure which, as many observers believe, "forced" American industry and enterprise beyond its normal course, have been obviated under a more sensible and less greedy system of financing? The interrogatories are futile. Large scale industrialism, which ran unchecked across the Continent, bringing aggravated evils such as overstimulated immigration, horrible industrial shanty towns and a widespread destruction of normal values in politics, in sociology, in education and art, to say nothing of the moderate, kindly life, merely continued the course of business enterprise as set in the bonanza period and the Gilded Age.

Morgan put together the Steel Trust, uniting dissident iron masters—not one of whom in his beginnings had been encouraged and nurtured by Wall Street—into the most gigantic profit-making combination the mind of man had ever contemplated. A hundred minor magnates, half as many promoters, were suddenly enriched from a tinseled cornucopia. The untutored profligacy

of the so-called "Pittsburgh millionaires" startled Pittsburgh and New York. Hard-working, scheming industrialists who had found difficulty discounting notes at their local banks, went mildly insane as they entered new realms of desire, buying old Masters, ropes of pearls, unnecessary bathroom equipment, private palace cars, silk hats and champagne. Hundreds of anecdotes were current about the childlike reaction of Carnegie's partners and the other beneficiaries of Mr. Morgan's cunning to abrupt wealth.

And, whereas the American people unabashedly could contemplate the mysteries and scope of a Creator who was at once responsible for the mechanical functioning of His Universe and responsive to the slightest whisper of His meanest supplicant, they were thunderstruck by the magnitude, expressed in dollars and cents, of Mr. Morgan's Steel Trust. The clergy, professors, editors and statesmen railed at this latest evidence of man's colossal cupidity. The Great White Father in Washington was appealed to in a somewhat hysterical effort to stop the inroads of Wall Street's ingenuity. Very much in the same strain as Millard Fillmore had phrased it a half-century before, social prophets foresaw the arrival of a new imperialism in Washington. "The world, on the third day of March, 1901, ceased to be ruled by so-called statesmen," wrote John Brisben Walker in his "Cosmopolitan Magazine." "True, there are marionettes still figuring in Congress and as Kings. But they are in place simply to carry out the orders of the world's real rulers—those who control the concentrated portion of the money supply." President Hadley of Yale put it thus: "Trusts have got to be regulated by public sentiment. The alternative is an Emperor in

Washington within twenty-five years." And Finley Peter Dunne, through his mouthpiece, "Mr. Dooley," took this view of the matter. "Pierpont Morgan calls in wan iv his office boys, th' prisident iv a naytional bank, an' says he, 'James,' he says, 'take some change out iv th' damper an' r-run out an' buy Europe f'r me,' he says. 'I intind to re-organize it an' put it on a paying basis,' he says. 'Call up the Czar an' th' Pope an' th' Sultan an' th' Impror Willum, an' tell thim we won't need their sarvices afther nex' week,' he says. 'Give thim a year's salary in advance. An', James,' he says, 'ye betther put that r-red headed bookkeeper near th' dure in charge iv' th' continent. He doesn't seem to be doin' much,' he says."

The shadow of encroaching imperialism, which when matured would make that of the McKinley New Era seem trivial, already rested heavily over the land.

But here we are in the Spring of 1901, ready for the last gripping act in Wall Street's drama of high piracy. Harriman and Morgan were at war over the Northern Pacific, with the Burlington at stake. The Burlington, a highly profitable railroad system traversing the vast, yellow, dusty Mississippi Basin, had been bought by Morgan and Hill out from under Harriman's predaceous nose. They wanted the road to link their Great Northern and Northern Pacific with Chicago. Harriman coveted it as a hostage. Paralleling his Union Pacific as far west as Denver and Cheyenne, he feared that an enterprising promoter might use the Burlington as the basis for another trans-Continental route. Neither antagonist had conceived, promoted, financed, built or actually operated the vast network of steel, the imperial land holdings, the locomotives, the terminals, the rolling

stock which they were about to use as weapons. Their title to ownership and combat rested not in reality but in a certain fictive system centered in Wall Street. They could, due to the black magic known as high finance, deal with the $155,000,000 imputed assets of the Northern Pacific by means of validated pieces of paper. The bewildering hocus pocus of finance!

Here then, in May of 1901, the astonishing Morgan, who humorlessly aped the manner of absolutism, was "taking a well-earned rest" at Aix-les-Baines in France, when Harriman advanced to battle. The vast Morgan, whose tread shook Europe as well as this Continent; whose approach caused the English press to suggest locking up Buckingham Palace.

Harriman had sought to make his way peaceably. Several weeks before, Hill had passed through New York, stopping overnight with his friend, George F. Baker, president of the First National Bank, staunch prop and beneficiary of the system of high finance. Harriman and Jacob Schiff, head of Kuhn, Loeb & Company, called by appointment to urge a "community of interest." Would Hill let Harriman and Schiff "in on the Burlington?" The patriarchal "empire builder" sheered off from realities.

"To this Hill replied with platitudes," Schiff afterward wrote Morgan in an extended version of the collision, wherein he not too bluntly blamed Morgan and his partner, Robert L. Bacon, for the feud and subsequent panic.

Harriman, a truculent little man, brusquely told Hill he was "taking a hostile line." Hill preserved his suavity.

In April, 1901, while Morgan unbent with the lesser nabob, the philanthropist, John S. Kennedy, at Aix, Hill, in Seattle on an inspection trip, noted in the local press considerable activity in Northern Pacific. The shares were being bought in "enormous quantities." In New York, Harriman, ailing somewhat that Spring, had engaged in a high undertaking. By means of huge credits juggled out of the treasuries of the Union Pacific and the Oregon Short Line, a subsidiary, Harriman and Schiff were out to buy up $78,000,000, a bare majority, of Northern Pacific common and preferred—the latter having equal voting power.

The market answered the steady buying pressure. Already giddy with the McKinley New Era speculative hysteria, prices advanced briskly to higher ground.

With Morgan in Europe and Northern Pacific moving through the Exchange in increasing quantities, "Hill sensed menace. He ordered a special train, had the rails cleared of all traffic east to St. Paul, and broke all records for fast travel between the Pacific Coast and the Mississippi River." [7]

Hill reached New York, presumably, on Friday, May 4. He went directly to Kuhn, Loeb & Company, not to Morgan's. In reply to a frank question, Schiff as candidly admitted that Harriman and he were buying all the Northern Pacific they could get. Hill, wise in such ways, knew the reason without asking.

Harriman, denied an interest in the Burlington, was out to take not only the Burlington but its parent, Northern Pacific. Control of "Nipper" carried control of the Burlington. The Harriman strategy was simply phrased by his biographer, Mr. George Kennan:

[7] "Our Times" by Mark Sullivan. Vol. II. New York.

"When Mr. Harriman discovered that the Burlington had been captured and taken into the camp of the enemy, he determined to make a sudden surprise attack on that camp itself." [8] Hill, in Schiff's office, "was thus invited to contemplate an unpalatable picture, the principal part of his and Morgan's railroad empire becoming an appanage to the domain of their rival." [9]

Hill departed forthwith, walking up Wall Street to the marble halls of his own banking firm, where he saw Bacon.

A cablegram forthwith hurried under the Atlantic to Morgan.

That night, in New York, Schiff totted up the "Nipper" shares held by his group. He found they had 370,000 shares of common, 420,000 shares of preferred—less than a majority of the former, but a majority of both classes—which had cost $79,000,000 in the open market. The next day Schiff, being a godly man and well satisfied with his week's work, repaired to the synagogue. By the doing of which, coupled with the morbid circumstance that confined Harriman to his bed in the Hotel Netherland, Schiff unwittingly admitted the lord of misrule to the Stock Exchange and very decidedly helped provoke the securities panic which destroyed the McKinley New Era. Technically, Harriman and Schiff had control. Both classes of stock enjoyed voting rights. Yet, by virtue of a by-law, Morgan and Hill, controlling common, could retire the preferred at any annual meeting. Hence, at J. P. Morgan & Company, Hill having learned from Schiff that the enemy did not control the common, the strategy

[8] "Edward H. Harriman: A Biography" by George Kennan. New York.
[9] "Our Times" by Mark Sullivan. Vol. II. New York.

was to make that control certain for the Morgan league.

Harriman lying abed had not accepted the situation as confidently as Schiff. He determined himself to buy control of the common. Had he done so, and had Morgan and Hill been apprised of that conclusive transaction, a treaty, and not war, would have been the obvious outcome. Associates assured Harriman he was secure.

"Nevertheless," he related afterward, "I made up my mind that we should have a majority of the common shares, and on that morning (May 4), I called up Heinsheimer (one of the junior partners in Kuhn, Loeb & Company) and gave him an order to buy 40,000 shares of Northern Pacific common for my account. He said: 'All right'; and as dealings that day in Northern Pacific common shares continued to be very heavy, I felt that, come what might, I had control of Northern Pacific, common stock and all."

By the following Monday, Harriman knew better. Getting no report on the sale, Harriman telephoned Heinsheimer, who explained that the order had not been executed. "He told me that before giving out the order he had to reach Schiff, who was at the synagogue. Schiff instructed him not to execute the order and that he (Schiff) would be responsible."

Meanwhile, how did the news fall in Aix? Morgan, sipping the waters, reading the cablegram, gave way to a rage in keeping with his general magnificence. Scowlingly, he entrained for Paris, where the genteel bureau of affairs of Morgan, Harjes & Company, echoed to transcendent detonations. He cabled Bacon peremptorily to "buy 150,000 shares, Northern Pacific common," employing James R. Keene—the wiliest operator

of his generation, once himself a pirate, but reduced in Morgan's cosmogony to a subordinate captaincy—to run the market.

Came Monday, May 6. By the time Harriman realized that Schiff's complacency had whipsawed him, Keene had bought the 150,000 shares—and the market was in an uproar. The word spread that Morgan was buying "Nipper." The Northern Pacific post (not actually a post, but a central station on the Stock Exchange floor whereat specific stocks are traded) was the center of a horde of clamorous brokers. A huge short interest appeared as the stock, opening at 149¾ vaulted upward. International bankers sold heavily against shares held abroad. Bears, trading for the inevitable break in price, momentarily borrowing stock to carry their commitments, went overboard. "The resultant situation was finance run mad. It was too much for Europe, whose banking houses had been lending freely to the great American promoters, but which now began to take in sail. Paris bankers at once stopped further advances; the Bank of England called the London joint-stock banks together to warn them against New York. The contest for Northern Pacific, however, did not slacken." [10]

Nipper went to 200, and on up. The speculative impetus given by Morgan's cabled orders caught the mad market of 1901 at its crest. All Spring, the market had been out of hand. "The outburst of speculation during April, 1901, was something rarely paralleled in the history of speculative manias. Not only did the younger men who had sold out to the Steel Corporation,

[10] "Forty Years of American Finance" by Alexander Dana Noyes. New York.

now made into many times millionaires almost over night and bewildered by their extraordinary fortune, toss into stock market ventures the money which they saw no other way of using, but old and experienced capitalists lost their heads, asserted publicly that the old traditions of finance no longer held and that a new order of things must now be reckoned with, and joined the dance. The 'outside public,' meantime, seemed to lose all restraint. A stream of excited customers, of every description, brought their money down to Wall Street, and spent their days in offices near the Stock Exchange. Two or three years before, it was called a good day's business when 400,000 shares of stock changed hands on the Exchange. In April, 1901, the daily record rose to a million shares, to two million, and finally, on April 30th, to three million and a quarter. The newspapers were full of stories of hotel waiters, clerks in business offices, even doorkeepers and dressmakers, who had won considerable fortunes in their speculations." [11]

Another observer of that scene, Edmund Clarence Stedman, poet-stock broker, observed the fin de siecle New Era thus: "Market and intrinsic values had parted company. The business of commission houses swelled beyond all precedent, and weary clerks toiled to midnight adjusting the accounts of lawyers, grocers, physicians, waiters, clergymen and chorus singers who were learning to acquire wealth without labor.

"The elevated trains in the early morning and the hotel cafes late at night hummed with stock tips and market gossip. Time and again new records were established on 'Change. From every lip dropped stories

[11] *Ibid.*

of fortunes gained in a week by this or that lucky stroke. Florists, jewellers, perfumers, restaurateurs, and modistes rejoiced in the collateral prosperity secured to them by the boom in stocks." [12]

With minor additions, Mr. Noyes and Mr. Stedman might have been describing the Coolidge New Era.

On Thursday, May 9, ruin descended as a black cloud upon the forgetful and greedy Street.

The "shorts," persistently "selling" what they did not own, found there was no more Northern Pacific to be had for love nor money. No stock to be borrowed. The premium for borrowing went to eighty-five per cent. Call money skyrocketed to seventy. Frenzied "shorts," seeking to avert doom, bid 300, 400 for "Nipper" with which to make good their "sales" at from 110 to 200.

Northern Pacific had been cornered. That is, more shares had been "sold" than existed, 78,000 by computation. One hundred shares were bought at 700. At the height of the madness, 300 shares changed hands at $1,000 a share.

Nor was that all.

The reeling market began to carry down the rest of the list. The credit structure of the country, always fragile, precipitously toppled. Union Pacific fell away from 105 to 76. Steel declined from the 50's to 24. Every issue in the list weakened.

Whereupon, Morgan, at the end of a cable; Schiff, tremulous in his counting room; Harriman, biting out invective as he paced his apartment; and the platitudinous Hill, declared a truce. The "shorts" were invited to step up and settle at 150. The market righted, at

[12] "The History of the Stock Exchange" by Edmund Clarence Stedman. New York.

substantially lower levels, and went into a gradual decline, lasting two years. Thousands of amateur speculators, professional and business men who had been having a fling during the New Era, lost their savings. Seasoned operators were ruined by scores—and the process, customary following each New Era, of squeezing out the water, pumped in by the promoters and absorbed by the middle class investor, went forward without check.

Morgan, licked to a standstill by his fierce rival—the only man in Wall Street, apart from the "spidery" Rockefeller and the sophisticated, cynical James A. Stillman, Morgan could not overbear—consented to whacking up the Burlington loot. Harriman won a share, by the "community of interest" formula, in the Burlington—and several years later walked out of the Morgan-Hill enterprise in the Northwest with a profit of $58,000,000, which he used to amplify his properties, won by manipulation, so that by his death in 1909 he sat on the boards of twenty-seven railways running over 39,354 miles of track; he commanded the deep treasuries of the Equitable Life and the Mutual Life and directed the Guaranty Trust Company. The imaginative little man, who usurped by money a countryside for miles along the Hudson, who quarreled with nearly everyone including Roosevelt (who called him an "undesirable citizen"), the little man with the level grey eyes, walrus mustaches and lofty forehead, ruthless in exploitation but proudly tender of his family, never bowed to the prognathous Morgan.

Fortunately, the panic of 1901 did not produce a commercial reaction nor a credit stringency. Europe remained prosperous and, although the panic cost us a

"foreign credit balance" of $200,000,000 stored in European reservoirs, and contracted a floating debt of approximately that size abroad, the farm, the old standby, preserved the export balance for the year. A bumper wheat crop, required at high prices in Europe to compensate for a partial crop failure there, pulled us out although in the Fall crop-movement months, New York banks had to ship $25,000,000 in gold over-seas. Without the favorable wheat balance, the sum would have been incalculably larger and might have brought on a trade prostration similar although, very likely, not nearly so severe as the one which followed the extinction of the Coolidge New Era.

XII—FAREWELL TO THE TITANS

THE furies invoked by misuse of a Continent's wealth again were at large in Wall Street in October, 1907, when J. Pierpont Morgan, more than ever resembling a folklore demigod, barged into action, uttering enchantments.

The sorceries of Mr. Morgan, hurrying with a party of clerics from the General Convention of his church at Richmond, Virginia, into the hell's cauldron of the 1907 panic, indeed frightened his good companions as their train neared the Jersey City terminal. The financier, outwardly a pious churchman and senior warden of St. George's, Stuyvesant Square, strangely was holding some secret communications when his ordained fellow travelers, led by Bishop Lawrence of Massachusetts, entered the private car that morning. There sat Morgan, most accomplished master of the black art of finance in the Republic, balancing "a tumbler turned upside down in each hand, singing lustily some tune which no one could recognize."[1]

The Bishop neglected, in his casual, well-bred recollections of the event, to note whether any of the brethren made the sign of the Cross. We leave to others an exact divination of the great man's behavior. The image of Mr. Morgan, ripely seventy, and adept in the labyrinthine mysteries of credit, performing a weird rite with tumblers, and incanting mystifyingly in an

[1] "Memories of a Happy Life," William Lawrence. Boston.

empty railroad car as he approached the scene of incomputable calamity, is arresting enough without insight into any private bargains he may have been consummating on that fateful morning.

Mr. Morgan had need of help from any quarter—even the occult. Whatever transactions he conducted at the moment were justifiable. Wall Street and the country again were being swept by the rigours of financial storm—those recurring phenomena known as panics, chargeable to unharnessed greed among the powerful, and stupidity in the use of the still novel instrumentality of credit—a dreadful breakdown of commerce and industry wreaking more actual suffering on a patient population than most wars.

Hell was indeed to pay in Wall Street when Mr. Morgan reached his marmoreal, squat library at Madison avenue and Thirty-sixth street. The country's immense productivity, in field, mine, and shop, twice had been ravished of profit in the collapse of the McKinley New Era in 1901 and the minor, yet drastic, "rich man's panic" of 1903. Within a few days, the Stock Exchange again would seethe with a fury of liquidation, hundreds of millions of watered stock unloaded by Morgan and the other trust promoters on the middle class would gush out of the market, banks would totter, the financiers would be meeting in tense all-night conferences devising formulas to repair the damage they had wrought, and Wall Street, Broadway, and Fifth avenue, as well as commercial streets in cities across the land, would be blackened with anxious lines of depositors. Presently, also, Morgan and the other giants—the original Standard Oil crowd, Rockefeller, Rogers, Flagler, et al., Harriman, Hill, Stillman, H. C.

Frick, Schiff, John D. Ryan and the rest of the gilded pack—would be emerging from the holocaust, their properties increased, their fortunes enlarged, Standard Oil with a new copper combine in its claws, and the Steel Trust possessed, by aid and sanction of the trust-busting Roosevelt, of the fabulously endowed Tennessee Coal and Iron Company with its 1,000,000,000 tons of unmined coal and 600,000,000 tons of profitable ore.

But the giants themselves would pay for this terrific looting with the extinction of their order. Out of the panic and reconstruction would arise a money trust, too vast to be manipulated by a few ruthless, highly individualized giants. Not for much longer would the heroes of the herd be "Captains of Industry." They would be replaced on the mobs' Olympus by the incredible creatures of Hollywood and a bit later by stunting aviators. Presently, in the New Jerusalem, the dalliances, the racing stables, the magnificent waste of the nabobs would be extinguished in public interest under the more garish glamour of lighter favorites. Plundering of the Continent by Wall Street would not stop by any manner of means. Plundering, however, was to become, in a slowly stabilizing economic order, institutionalized. Affable, sophisticated, highly skilful and no less predatory bankers and industrialists with a superior knack of concealing their operations under fair words, would be the plunderers new style. So consistent was to be this trend that in the riotous days of 1929 and through the despairing aftermath of the Coolidge New Era, journalists repeatedly would lament the absence of "leadership." Whether a J. Pierpont Morgan, the elder, regarding two balanced tumblers and booming a chant in a private car, could have cushioned

the stock market collapse of 1929 and thereafter may not, of course, even be inferred. Conventionally, he is credited with minimizing the rout of values in 1907.

If the money masters, rallying about Morgan's massive figure, waxed richer through the panic, the rest of the country did not. In this, the first panic wherein skeptics openly accused the rulers of Wall Street with designedly encompassing ruin—a charge never wholly substantiated but confirmed by certain suspicious coincidences—the rulers of Wall Street appeared for the first time to the public as definitely malevolent spirits, ready, in their lust for gain, to demoralize business and impoverish the country.

Whether the Great Financiers who evolved out of Nineteenth Century pirates and the fin de siecle "Captain of Industry," deliberately wrecked the credit structure in 1907—as a means of ridding Wall Street of the upstart Heinze-Morse-Thomas clique, acquiring United Copper and Tennessee Coal & Iron as well as suppressing the dangerous rivalry to State and National banks of the swiftly developing trust companies—is not susceptible of proof. However, few persons in Wall Street and none outside doubt the probability. Nothing in the record of the class, the most voracious exploiters who might be found in any presumably humane society, makes such a cynical enterprise seem unlikely.

President Roosevelt undoubtedly spoke for the alarmed and newly appraising middle class when, in 1908, commenting to Henry White on the panic, he said: "Our big financiers are for the most part speculators, which is not true of European financiers." Roosevelt, again taking him as the representative of the middle class, just then in the beginning of its spoliation by

big business, earlier had spoken with angry contempt of the Wall Street disorders in 1903 as "due chiefly, almost solely, to the speculation, the watering of stock on a giant scale, in which Pierpont Morgan and so many of his kind have indulged during the last few years." Throughout the period of trust busting, muck-raking and startled political reform which reached a head with the 1907 panic, Roosevelt insisted on eyeing the great financiers with bleak mistrust. When a leading French financier called at the White House at this period to ask a concession in favor of Mr. Morgan and other bankers, the President discoursed volubly for twenty minutes on the history and culture of Poland and when pressed by his visitor remarked bitingly: "I am not interested in your wealthy friends." Roosevelt objected to the Wall Street giants on the ground of morals. Charles Francis Adams, Jr., who had also observed the pirates of the bonanza period closely, expressed his distaste for the new magnates as individuals with regard to their general cultivation, education and manners. "I am more than a little puzzled to account for the instances I have seen of business success—money getting," he wrote. "I have known, and known tolerably well, a good many 'successful' men—big 'financiers'—men famous during the last half century; and a less interesting crowd I would not care to encounter. Not one that I have ever known would I care to meet again, either in this world or the next; nor is one of them associated in my mind with the idea of humour, thought, or refinement. A set of mere money getters and traders, they are essentially unattractive and uninteresting. The fact is that money getting, like

everything else, calls for a special aptitude and great concentration." [2]

In any event, here we are in the first decade in the bright new Twentieth Century, the country prospering as never before, the money masters exacting an incredible toll through the handy technic of the Stock Exchange; and with the people generally showing a consciousness for the first time of the power for harm inherent in Wall Street manipulations. Heretofore, the dread had been directed at railroad promoters and the railroads themselves with, a little later, a growing distrust of the trusts on the side of their power to charge monopoly prices for their produce and destroy independent business men. But by 1907, the country's major industries, having been trustified and their control passing through that process into Wall Street, the fearfulness of the people took a new direction. It was estimated in 1904 that 318 trusts, capitalized at $7,246,000,000, had absorbed 5,300 formerly distinct units of industry. Another estimate enumerated even more trusts and put their aggregate capital at $20,000,000,000. Meanwhile, the railroads had been undergoing the same consolidating process and the major trunk lines were now gathered into four great nuclei, known, roughly, as the Vanderbilt, the Harriman, the Morgan, and the Gould systems. "Yet more menacing was the concentration of power proceeding in the banking world, which even the conservative, capitalistic 'Wall Street Journal' described in 1903 as 'not merely a normal growth, but concentration that comes from combination, consolidation, and other methods employed to secure monopolistic power. Not only this,

[2] "Autobiography" by Charles Francis Adams, Jr. Boston.

but this concentration has not been along the lines of commercial banking. The great banks of concentration are in close alliance with financial interests intimately connected with the promotion of immense enterprises, many of them being largely speculative.' It added that the banking power was passing to the control of men who were less interested in legitimate banking than in stock promotion, watering, and manipulation." [3]

The result of the trust movement inevitably had been to drain away the profits and savings of the country into Wall Street, through the magnetizing power of a buoyant stock market and equally to concentrate control, if not ownership, of what Mr. James Truslow Adams pessimistically calls the "dinosaurs" of the new capitalism in the hands of the great promotion bankers and their allies and aids. The panic of 1907 was in a sense, as Mr. Henry Clews contended, "a rich man's panic." The giants had the power to keep the economic system on an even keel. No one else had. We had no central bank. Too many of the multitude of small bankers, small industrialists, merchants, etc., who formerly, scattered over the land, had some control of their financial destiny, were now helpless executives, or pensioners in the case of the industrialists, of the trusts. Contrary to the case after other panics, no one in the sequence of 1907 blamed any one but the masters of money. The extravagance of the common man, assessed by Greeley as the cause of the 1857 collapse, currency troubles as in 1873 and 1893, a titanic Stock Exchange collision which unbalanced the credit structure in 1901—not one of these factors could be charged with responsibility for the debacle in 1907.

[3] "The Epic of America" by Charles Truslow Adams. Boston.

What happened more nearly approximated the distressing overexpansion of the late 1920's. The money giants, applying the magic of Wall Street's easy money lure, stripped the country bare of profits, diverting money which should, by any sensible rule, have gone into consumption goods or intelligently devised producers' goods into wasteful capital structure. The time came when the country's productivity, never higher, could not sustain the burden of inflated capital charges, largely the result of "over-saving" by the very rich.

While we speak of the panics of 1901, 1903, and 1907 as separate, a long view very likely would reduce their status as separate collapses of the country's credit system. No doubt each put a periodic interruption to the tide of prosperity, which began in 1897, but they may be treated as incidents in a general trend. The two earlier ones, neither of which was followed by industrial depression, were warnings against a too rapid absorption of the country's income by Wall Street. In each case, the voracity of the trust builders sucked too large a proportion of the social product, income, into Wall Street. The device for separating the people from their earnings and, aggravatingly, laying heavy future charges on their industries in the way of excessive capital pyramids, was too tempting. Mankind, as we have noted from time to time, has never been able to trust the moderation, much less the generosity, of traders for profit.

A New Era psychology recurred before each of these three disturbances. There were no reasons apart from credit abuses for the disasters. Gold production, accelerated by finds in the Klondike, by the new method of treating low grade ores, and by enhanced pro-

duction in the Transvaal, did its level best to keep commerce on a stable bottom. In 1906, South Africa added the unprecedented value of 24,500,000 pounds sterling to the world's gold reserves. Agriculture, (even yet to a degree not fully perceived) a broad factor in the country's well being, thrived from 1897 almost without interruption into the climactic panic of 1907. After the "little panic" of 1903, caused by inability to digest the "indigestible securities" poured from the printing presses by the giants, the farms produced extravagantly, as if Providence attempted to compensate for the lawless speculativeness of Wall Street. "Of wheat in particular, the world produced in 1905 a crop larger by nearly 100,000,000 bushels than any ever before harvested, and in 1906, the yield was 100,000,000 bushels larger still. Prior to 1902, the world's largest wheat yield had been 2,900,000,000 bushels; the crop of 1906 was 3,400,000,000; yet such was the magnitude of consumption that English experts estimated the second of these figures to have been only 1,440,000 bushels beyond the world's actual requirements for the season. In the United States, despite the signs of diminishing productive capacity in 1904, the wheat crops of 1905 and 1906 surpassed all precedents except the great 'wheat year' 1901; the corn crop established a new maximum yield in each of these two years; the cotton yield of 1905 was the third largest in our agricultural history and that of 1906 was only a trifle below the largest." [4]

The curve of prices rose decidedly from 1897 forward, sharply from 1904 to 1907. Organized labor,

[4] "Forty Years of American Finance" by Alexander Dana Noyes. New York.

enabled to exact wage rises amid the general prosperity, stood, with the farmer and the cotton planter and the retailer, on a relatively high level of consuming power. England, relieved of the strain of war in South Africa, and the rest of Europe generally were prosperous and increasing customers of this Republic. Mr. Morgan and his satellites easily were convinced by the swift recovery after 1901 and 1903 that "after all economic law had changed, and that the real economic penalty for economic blunder and excess need be feared no longer. It was, in fact, a very noticeable phenomenon, in the discussions even of experienced bankers at that period, that the recurrence of another panic like that of 1893, with its runs of depositors, its general suspension of bank payments, its recourse to clearing-house loan certificates, and its premium on currency, was accepted as impossible." [5]

However blind were the Wall Street leaders, even casual scrutiny would have shown that in contrast to 1857, 1873, and 1901, the sky was positively darkened with signs of impending distress through 1905 and 1906. The Russo-Japanese war took above $1,000,000,000 out of productive use from Paris, London, and New York. The catastrophes at San Francisco and Valparaiso destroyed another $200,000,000 in capital. And, seemingly stimulated by the new burst of prosperity which ran around the world, a common speculative hysteria took hold of the markets in such widely separated places as Japan, Egypt, and Chile, altogether affecting five Continents. In 1905, the giants in Wall Street went definitely on the loose, drunk with the riches welling up from the land. "Their bank affiliations en-

[5] *Ibid.*

abled them to pursue their course unchecked; their use of credit was practically unrestrained; there seemed no bounds to the audacity of their ventures. Railways with share capital running into the tens of millions were practically cornered on the Stock Exchange; one of them, a company with $70,000,000 outstanding stock, was put up twenty per cent in price within a fortnight, and without a particle of news to affect its value legitimately. The same thing happened in a dozen other properties." [6]

Bank rates rose as reserves fell. The giants, using the vast reserves of communal wealth stored in the banks and the insurance companies' reserves, did not abstain even when, in March, 1907, and later in August, the market dipped so broadly and convulsively that shrewd observers detected signs of the end. Prophets of all degrees were not lacking. Mr. Schiff warned of "a panic such as will make all previous panics look like child's play." Hetty Green, Tom Lawson and Andrew Carnegie spoke, each in his fashion, of doom. Mrs. Green, closing her reticule from the prying eyes of reporters, characterized the financial situation as "going to the devil" with watered stock. Lawson published full page appeals to the public to prepare in the hour of panic to rise and seize the industrial octopi through common stock purchases. And the aging Carnegie, devoting himself to after-dinner speeches, social climbing among the intellectuals of two Continents, and burdensome gifts of public libraries, blandly assured an audience at the Hotel Manhattan that he had no sympathy for the giants. "A few gamblers in Wall Street are in trouble," he said. "It is a good thing for the

[6] *Ibid.*

country that those gamblers come to grief." Growing confidential, the Laird of Skibo said he would as lief venture money on a bridge game as trade for a rise or fall in securities. The speculators, he explained, were no better than parasites.

Mr. Morgan, accompanied by his spiritual comforters, reached New York on Sunday, October 20. Two days before, the indifferent Teddy, hunting the cane brakes of Northern Louisiana under the drive of his imperative will-to-action, shot down "a great big black bear," no doubt with a joyfully venomous thought for his victim's namesakes in Wall Street. Out in Chicago, Harriman, stalking his hot-tempered rival, Stuyvesant Fish, out of the New York Central in revenge for a social snub administered by the Knickerbocker Mrs. Fish to the newly rich Harriman menage, saw—or at least said so in a public interview—no panic in sight.

Thus were the three great protagonists of the high drama of October, 1907, disposed at the beginning of the direful week which was to see the Stock Exchange quake, popular depositories barring their doors, and New York and the country stunned by the abrupt end of what had come to be taken for granted as the most genial of New Eras. Roosevelt and Harriman drew the major blame for the panic; Morgan the credit for tempering and confining its course. In the frenzied days which followed, the "New York Sun," always mordant in the plutocratic cause, would address the President thus: "Hail Cæsar! We who are about to bust salute thee!" The Augusta, Ga., "Chronicle" would term Mr. Roosevelt: "Our chief panic maker." The pertinacious little Mr. Harriman, with elaborate indirection, attributed the evils of the period to his ele-

vated adversary. "I would hate to tell you," Harriman told reporters, "to whom I think you ought to go for an explanation of all this."

And in the United States Senate, Uncle Shelby Cullom of Illinois, distressed by the panic, assured his colleagues that if he were the President he would at once put Harriman "behind the bars." The President, himself, suggested that "certain malefactors of great wealth," restless under the restraining discipline of the Government, might have conspired "to bring about as much financial stress as possible . . . in order to secure a reversal of that policy."

The financial community blamed Roosevelt's administration for unsettling business, specifying the recent assessment of a $29,000,000 fine by Judge Kenesaw M. Landis against the Standard Oil Company of Indiana, an inquiry in 1906 into extravagantly wasteful methods of railroad re-financing, and passage of the Hepburn Act in that same year authorizing the Interstate Commerce Commission to fix maximum railroad rates. Detached by the passage of twenty-five years from the heat of the conflict, we see that the Hepburn Act and the Stanley Committee's investigation into railroad financing not only failed to depress the market in railroad equities but actually seemed to stimulate it. "Instead of realizing on the investments which they declared to be jeopardized through Mr. Roosevelt's activities, certain railway managers, who were as active in Wall Street speculation as they were in transportation matters, started a speculation for the rise during August, 1906, in shares of the very railways affected by the law, which reached such proportions as to alarm the whole conservative community. That is to say, the

administrative and legislative action which is presumed to have been a cause of financial trouble was, in the immediate sequel, followed by enthusiastic confidence, by increased credit facilities, and by unbridled speculation for the rise." [7]

Mr. Harriman played the god of this machine. On June 30, 1906, Union Pacific, as a result of the forcible liquidation of the Northern Securities Corporation through a Supreme Court decision, had on hand $55,-968,000 as the proceeds of his Great Northern and Northern Pacific holdings. Harriman, in August, launched this impressive sum into the market, buying shares in the New York Central, the Baltimore & Ohio, and the Atchison, Topeka and Santa Fe. In addition, Mr. Harriman borrowed $75,000,000 in Union Pacific notes and hurled that into the market—a total of $131,-970,000 used to buy the shares of other railroads between October 6, 1906, and February 28, 1907. Cumulatively, the Union Pacific without warning increased its dividend in that October from six to ten per cent. A speculative hysteria ensued. Mr. Harriman led the bullish advance. "Union Pacific stock rose 35 points within a fortnight; numerous other stocks 10 points or thereabouts, and then, as they ought to have expected, the speculators heard from the money market. Such, indeed, was the strain now imposed on bank resources that, before the month was over, not only Wall Street demand loans, but merchants' discounts, commanded the highest rate reached during October, outside of actual panic, in more than thirty years." [8]

[7] "Forty Years of American Finance" by Alexander Dana Noyes. New York.

[8] *Ibid.*

In March and in October, 1907, as we have seen, the market declined drastically. The bank rate rose in New York and London, until, on October 19, the Bank of England at a called meeting of the Governors established the rate at six per cent—for the third time since 1873. Lombard Street trembled on the verge of a panic and the Old Lady of Threadneedle Street portentously warned the great joint stock bankers to withhold further credits to speculative New York on penalty of a seven per cent rate. Under this foreign damper, prices on the New York Stock Exchange stabilized at once. Parenthetically, the Spring and Summer of 1907 had seen the sharp collapse of security values in Egypt and Japan. The bottom dropped out of the Hamburg Exchange on October 17 amid scenes described by the London Economist as "the biggest financial disaster that had overtaken the city since 1857." At the same time, Chile underwent a similar experience. Presently Holland and Denmark would find their finance and commerce prostrated. The situaation in the Autumn of 1907 resembled in its world wide destruction of values and consuming power the situation in 1930.

Here we are on the 20th of October with Morgan safely in New York, Roosevelt in Louisiana, and Harriman in Chicago blithely skeptical of forthcoming doom. In the previous week, when new lows had been registered on the Stock Exchange and United Copper, a Heinze-Morse-Thomas rival of H. H. Rogers' Amalgamated Copper, had been pounded from 53 to 10 on the Curb Exchange, Wall Street had fidgeted on pins and needles. F. Augustus Heinze, independent copper baron, retired at midnight on Wednesday as President

of the Mercantile Bank. The next day the Stock Exchange firm of his brother, Otto, was suspended. The black harbingers of disaster sped through the Street thenceforward. On Sunday, a committee of the New York Clearing House announced that the Mercantile and other banks in the Heinze-Morse-Thomas chain were solvent and that those "irresponsible interlopers" had withdrawn from the directorates.

On Monday, lightning again played over the financial district. That day the National Bank of Commerce took an overt step which in its way contributed largely toward precipitating the panic. It notified the Knickerbocker Trust Company for which it had been clearing, that it no longer would honor the Knickerbocker checks. Uneasiness spread. The officers and directors of the Knickerbocker Trust company, a fashionable depository with 21,000 customers and $71,000,000 in resources, which recently had housed itself in a Doric-pillared citadel on the northwest corner of Thirty-fourth street and Fifth avenue, foolishly agreed to hold an emergency conference that night at Sherry's. A wry prank of Fate. The bulk of the Knickerbocker's depositors came from the well-to-do classes. At that time the Day and Night Bank, a Broadway institution during the "lobster palace" era, kept open to accommodate belated spendthrifts and prudent theatre managers and restaurateurs.

As the directors of the Knickerbocker, meeting in a private dining room, confronted their dreadful Fate and despairingly weighed the few millions of dollars of cash reserves against the potential demand for currency on the morrow, the panicky words spread through the supper crowd. "Galsworthy,

among the moderns, might perhaps be credited with that night's scene, which has come down to us as lacking no element of dramatic contrast. A fashionable restaurant on an autumn evening, filled with leisurely groups, laughing and talking, hearing beyond their laughter the familiar sound of the crowd that ceaselessly streams by along the glittering streets. By and by some remark drifting in, as to what was going on behind closed doors. Imagine the words passing from one to another, without equal significance to all, but to all intensely interesting—that rumour, ignored by the puzzled, smiling women, yet laying a heavy shadow over the faces of the men! And all the while, moving from table to table the maître d'hotel, pontifical, and 'in the know,' the waiters, alive to every whiff of gossip as it was wafted into the corridor, those murmured words 'the Knickerbocker'—'difficulties'—'looks very bad'—the growing uneasiness that followed them—the sickening apprehension—. Meanwhile behind those doors, ruin stalked about and grinned. Ten millions of cash lay in the Knickerbocker vaults, but what were ten millions in the event of a run? Men got to their feet, argued, protested, recriminated, sat down again. Justice Gerard strictly advised closing the doors before morning; others were unwilling. It was learned that two Morgan partners were present in the room; they were appealed to and seemed disposed to help, but their Chief had not as yet expressed himself and the form which this aid was to take remained undetermined. The gutting had been so complete that there was no structure left to build on—every man hesitated to assume so appalling a responsibility." [9]

[9] "The Portrait of a Banker: James Stillman: 1850-1918" by Anna Robeson Burr. New York.

Soon after daybreak next morning, a line of anxious folk had formed outside the bronze doors of the Knickerbocker Trust. The first man in line bore a portfolio lashed to his wrist. He was the messenger from the Day and Night Bank. The checks he bore were for important sums, one of them drawn to a cool million. Throughout the day disquieted depositors, many of them women in smart furs, marched through the bronze portals demanding their own. The prodigious sum of $8,000,000 was paid out that day by the Knickerbocker.

Downtown at the Trust Company of America, where the Irving Trust company's skyscraper now stands, another fretful line of withdrawing depositors spread alarm through the financial district. Recourse was had there to the force of visual example. Willy K. Vanderbilt, whose family fortunes were in some part involved with this trust company, took his place behind a teller's wicket as a sign of reassurance to the crowd. That was on Tuesday. On Wednesday, Wall Street veterans, according to the "New York Herald," found the scenes more dramatic, the crowds denser, than during Black Friday in 1869 or the poignant days of '93. And out in Pittsburgh, the three Westinghouse Corporations failed for $100,000,000 and the Pittsburgh Stock Exchange nailed up its doors. Skeptics, who have cast a more jaundiced eye on the 1907 panic than on any of the others, have insisted that General Electric, heady with Rockefeller money, encompassed the downfall of the Westinghouse interests.

Secretary of the Treasury George B. Cortelyou had arrived in New York the afternoon before, proceeding to the Manhattan Hotel where he conferred with Mr. Mor-

gan, Mr. Stillman, Mr. Baker and others. "On that night, in effect, the financial machinery of the United States Government was turned over to Morgan, whom Roosevelt had so recently described as an unhealthy influence. Insofar as his letters show, the President took no part in the arrangement. He was returning from the bear hunt." [10]

Thereafter, the panic ran an excessively violent course. Morgan, entrenched and in the supreme moment of his career as a moderator, played patience nightly in the study of his Stanford White library in East Thirty-sixth street. The study, with a white marble fireplace at one end, a shabby but extremely interesting lectern out of Fifteenth Century Siena, the deep maroons in an oil painting of a long faced and melancholy monk gazing mildly from one wall; and a stained, intricately carved baptistry opposed to the desk on which Mr. Morgan spread his playing cards in the artificial maze of solitaire. There Mr. Morgan, puffing a six-inch black cigar, fiercely refused to save the Knickerbocker Trust company. He indicated he had had enough of these trust companies, which operated outside the banking laws and were able to attract depositors away from the regularly chartered banks because they did not need the scrupulous reserves of the latter. "I can't go on being everybody's goat," he told Stillman along in the early morning hours when an urgent appeal was made to save the beleaguered trust company. The historians of that incident agree that Mr. Morgan by a gesture indicated that he would save the trust company only if his own interest was served. In that study, Mr. Morgan, sitting in Jovian aloofness from the trou-

[10] "Theodore Roosevelt: A Biography" by Henry Pringle. New York.

bled minor bankers who consulted across the hall in a sumptuous chamber, sorted the sheep from the goats in the banking situation, planned how to use the $25,000,000 put at his disposal by Mr. Cortelyou and, as the panic was passing through its final stages, authorized Elbert H. Gary, unctuous president of the steel corporation, and H. C. Frick, strong man of Wall Street, (whose principal recreation was to sit at evening on a kingly throne under a baldacchino listening to the strains of his favorite number, "Dearie," on his organ) to proceed to Washington and implore the burry Roosevelt for permission to gobble the Tennessee Coal and Iron company.

The $25,000,000 from the Treasury furnished by the Prussian-like Cortelyou, who watched the panic scenes from the Sub-Treasury across from the Stock Exchange, went to the relief of the stock market—not, mind you, to the banks—on Thursday of that week. Years later, it came out, through the testimony of Ransom H. Thomas, President of the Stock Exchange in 1907, that about midday of that Thursday he had waited twenty minutes for recognition in Mr. Morgan's office and had then been told to return to the floor with reassurance that $25,000,000 would be forthcoming to support brokers' loans. Call money had gone to seventy-five per cent and, for a brief moment, to 100 per cent. The market was decidedly out of hand and values scarcely were recognizable. Mr. Thomas testified at the Pujo Money Trust investigation in 1912, that he had suggested to Mr. Morgan the apportioning of this money into three or four hands as a tactical expedient. Mr. Morgan agreed. And so, with banks menaced, runs in being from Sandy Hook to the Golden Gate, four

trust companies and one national bank in New York closed, the Government's boon went primarily to the relief of the speculative interest.

The Street still trembled at the end of the week, however, and on Sunday night, Mr. Morgan, looming over his Renaissance library, was persuaded, according to the naïve chroniclers, by Messrs. Frick and Gary that the absorption by the steel corporation of the Tennessee Coal and Iron company was an expedient essential to saving the nation. Only Roosevelt, hostile, economically uninformed, and powerful, stood in the way of this further aggrandizement of the Steel Trust. That morning, the churches of New York, themselves anxious as their "pillars" contemplated the possible destruction of the system, rang with prayers for the wise guidance of Mr. Morgan and his counsellors. Monsignor Farley, the Roman Catholic Archbishop, announced, at a special mass for business men, that he had "confidence in the banks." The clergy of a dozen denominations besought the prudent counsel of God for Mr. Morgan.

That Sunday midnight, a despatcher of the Pennsylvania railroad at Jersey City received orders to clear the tracks to Washington for a special train made up of a locomotive, a baggage and a private car. Gary and Frick were off to win the President's consent to acquisition of the Tennessee Coal and Iron company as a prerequisite to halting the panic. Moore and Schley, a leading brokerage house, were in difficulties. A pool operating in Tennessee Coal and Iron had hypothecated stock up to $6,000,000 with them. Grant B. Schley, the dominant partner in the firm, was a brother-in-law of George F. Baker, the whiskered and cautious nabob of the First National.

John W. Gates was in this pool; also Oakleigh Thorne and Charles Pratt of the Standard Oil. Thorne was President of the Trust Company of America. His satraps convinced Mr. Morgan that the collapse of Moore and Schley would destroy the spindling structure of high finance—never, as we have seen, securely rooted in reality.

And so, through the night sped the oleaginous Gary, who forbade directors of the Steel Company to match for the $20 gold pieces they received as fees on a point of Methodist ethics, and the austere Frick. Arrived at Washington, their eagerness overran itself. Soon after eight o'clock they telephoned the President's secretary, William Loeb, demanding immediate audience. Loeb replied that the President never saw anyone before ten A.M. But by nine o'clock, the exigent pair were waiting in the President's office. Mr. Roosevelt, with all regard to his social cachet as a member of a Knickerbocker family, his strenuously acquired learning in various sciences, his seeming self-importance, never sat easy, face to face, with the spokesmen for dynamic wealth. The Roosevelts, it may as well be borne in mind, have a mercantile rather than a professional tradition. The President, perhaps, was unconsciously impressed by the implied panoply of the millions ranged behind his callers. His defiance of Wall Street had been modified by the panic. After all, the Roosevelts, from Dutch Colonial times on, had been sensitive as other merchants to the rise and fall of prices and the opening and closing of markets. Their well-being depended upon an easy flow of trade.

The Messrs. Frick and Gary did not take the President into their confidence wholly. They told him that

the fate of a large financial house was bound up in the shares of the Tennessee Coal and Iron company and unless the United States Steel corporation could purchase these shares and relieve the congestion that house might fail, thus bringing demoralization upon an already dismayed commercial system. The President made no inquiries. Later, he disclosed on the witness stand that he thought it wiser not to question his visitors. He assumed, he said, that they were speaking of an important bank.

Mr. Roosevelt, from whatever motives, and they must have been confused in that extraordinarily lively mind, brusquely gave his consent. He had no more idea, at the time, than the newest clerk in the Pension office, what his offhand decision implied. Judge Gary, elated, got on a telephone connected with J. P. Morgan and company and gave the news to George W. Perkins, a partner, who in turn relayed the news to Mr. Morgan at his home. The report was permitted to spread in the Street that the steel corporation had relieved Moore and Schley of their burdensome Tennessee Coal and Iron stock, and furthermore that the same aggregation of capital had purchased control of the immensely rich southern rival.

For that Mr. Morgan has been praised. According to conventional historians of the period, it was the bolstering of Moore and Schley which kept the 1907 panic from turning into a rout comparable with the madness of 1929 and 1930. There were dissenters even then, however, who pointed out that a loan of United States Steel bonds would have served as well to check the panic. And John Moody, an analyst who erred, if ever, on the side of ascendant plutocracy, exclaimed

later that the $45,000,000 paid for the Tennessee Coal and Iron company made it "the best bargain . . . the steel corporation or any other concern or individual ever made in the purchase of a piece of property."

George Kessler, prismatic hedonist, a wine agent who left a $1,000,000 collection of fans at his death, belonged to the Tennessee Coal and Iron company pool. Twelve years later he confided to Clarence W. Barron, proprietor of the "Wall Street Journal," his notions about the suspicious relationship of the Steel transaction to the end of the panic. "I don't say the panic was made," Mr. Kessler said, "but the panic was used to get this stock."

And so the panic of 1907 eventuated in a horde of clearing-house certificates, emergency money which reached the startling total of $96,000,000; broken banks from Coast to Coast, and the other familiar stigmata of every credit collapse. But the giants, the money masters, clung temporarily to their mastery and the system survived. While the issue as to whether or not the panic was deliberately provoked remains debatable, no one doubts that "the magnates facilitated its coming and sharpened the disaster by their reckless promotions, unscrupulous use of other people's money, and frenzied speculation. . . . The panic, moreover, revealed the incapacity of finance, as the unifying expression of business, to insure economic security. Fooling themselves and the public, the magnates believed they were creating a system in which panics could not occur. After the Steel Trust's organization, John B. Claflin said at a bankers' dinner where J. Pierpont Morgan was an honored guest: 'With a man like Mr. Morgan at the head of a great industry, as against the old plan of many

diverse interests in it, production will become more regular . . . and panics become a thing of the past.' But the 1907 panic, only six years later, was as bad as the panics of 1857 and 1873 when Morganization was still in the future. Morganization, the centralization of industry and finance imposing financial control over industry, introduced co-ordination and regulation, but it was largely co-ordination of control and regulation of profits, and only partly unification of the nation's economic life." [11]

New York soon forgot the days of its dread. The Lord Bishop of London, the Rt. Rev. Arthur Winnington-Ingram, was cheered by a devout congregation of financiers as he admonished them, at Broad and Nassau, on integrity and the life after death. The gaitered bishop accepted a beautiful Prayer Book and was led off to luncheon by pillars in the Street. On the opposite corner Solomon Fieldman, an earnest little man who drove into Wall Street in a flaming red car, spoke a word for the charms of Socialism and was carried off bodily by the constables and fined $3—which he would not pay.

A youthful, frightened Evelyn Nesbit took the stand, this year, at the Criminal Courts Building to shield Harry K. Thaw from the law's vengeance. Thaw was on trial for shooting down Stanford White on the old Madison Square Garden roof. Mrs. Mary Baker Eddy's son, George Washington Glover, came East from Deadwood, S. D., to try, through the courts, to wean his mother's putative fortune from her and her faithful satellites. Mrs. Eddy and her satellites defeated him. Mrs. Russell Sage gave to social planning $10,000,000

[11] "The House of Morgan" by Lewis Corey. New York.

of the money she helped, by rigid economies, to save. John Alexander Dowie, captain of industry in his fashion, went to glory, leaving behind a $20,000,000 Zion City.

The "Herald" boldly carried advertisements proclaiming the sovereign purity of Jameson's Three-Star Dublin-distilled liquor and of the celebrated 1898 Monopole. The Pennsylvania Railroad vaunted itself on its 18-hour train to Chicago. Women billowed pompadours and bustles as they went to hear Geraldine Farrar and Caruso at the "Met.," Melba at the Manhattan. Doctor Parkhurst volleyed for civic righteousness in Madison Square; Lillian Russell sparkled in "Wildfire"; John Drew played "My Wife" at the Empire; Denman Thompson returned, after a four years' absence, in the old reliable "The Old Homestead," and the British press admonished their American cousins to "admire common honesty much more."

General business remained bad during 1908, in spite of the fatuous organization by business men of "prosperity leagues" and a particularly giddy propaganda enterprise known as the Sunshine Movement. As a matter of fact, in spite of moderately prosperous crop conditions and industrial productivity, the country did not readily recover from the blow of 1907. Times were hard in the back streets of the metropolis, in the ugly industrial cities and villages, and on the homesteads of the country through the administration of Mr. Taft. In 1913, following the inauguration of Woodrow Wilson, industry slackened appreciably. Factory stacks were smokeless, railroad yards crowded with cars, and a spirit of apprehension seized upon the people—a mood which was quickly capitalized by the Republicans, who

articulated the familiar story of Democratic incompetence, until a certain incident at Sarajevo and the ensuing World War rescued the country from the sins of '97 to 1907 by means of an advantageous market for consumption goods. The World War redeemed the country from despair as Providential droughts, etc., had done in 1879 and in 1897.

XIII—THE NEW JERUSALEM: 1915-'29

> ". . . And the city was pure gold, like unto clear glass. And the foundations of the wall of the city were garnished with all manner of precious stones. The first foundation was jasper; the second, sapphire; the third, chalcedony; the fourth, emerald; the fifth, sardonyx; the sixth, sardius; the seventh, chrysolyte; the eighth, beryl; the ninth, a topaz; the tenth, a chrysoprasus; the eleventh, a jacinth; the twelfth, an amethyst.
>
> "And the twelve gates were twelve pearls; every several gate was of one pearl; and the street of the city was pure gold. . . ."
>
> —REVELATION: 21

THE United States entered the New Jerusalem, a paradise more materially orgulous than the subject of St. John's rhapsody, in October, 1915, and "Buck" Duke was the prophet thereof. James Buchanan Duke, whose life followed the pattern of a conventional American saga—treading the path to power in Wall Street from a mule's back on his father's farm, and fulfilling a peasant's dream by hiring forty men to shear the lawns of his country seat; distilling, in an access of refinement, the water before it spurted through his fountains—Duke uttered the authentic creed of the New Jerusalem. Hear "Buck" Duke, tobacco merchant, power magnate, merciless Wall Street operator, incredibly naïve nabob, and, at his death, $40,000,000 patron of higher education:

"Yes, I bought the Leeds' palace at Newport, the finest thing in Newport. I have now four houses; my main place at Somerville, N. J.; my home in the South, one at Newport, and one on Fifth Avenue; and I am going to play golf the year round from these four places and only work two months in the Winter. If the United States should get a sensible system of taxation and put the taxes where they ought to be—on consumption—and let capital increase in the country, developing industries and employing labor, this country would dominate and make prices for the whole world.

"There is only one thing I am crazy about: it is the dominant position of the United States today. I thought when the war was over impoverished Europe would get to work, send their goods over here, take our money, and reduce our prices; but, damn it, they haven't begun to do it yet; they won't work; they are demoralized.

"Henry Ford is on the right tack with his money. He wants to put it into enterprise. This is what makes the country prosperous. You don't get rich by loaning out money; a country gets rich by paying wages to labor, maintaining large outputs, large consumption, and large markets." [1]

There spoke the typical male American as he flourished during the glittering, easy money paradise which began in October, 1915 and ended, roughly, in November, 1929. If the resentful, silvery trumpetings of Bryan may be taken as the representative voice of a harassed land in the '90's, and the peremptory, well-bred Roosevelt may be assumed to speak for Middle Class fear-

[1] "They Told Barron" edited by Arthur Pound and Samuel Taylor Moore. New York.

fulness in the face of an agglomerating money power from the beginning of the Century to the outbreak of the World War, Duke, vaunting his possessions, pledging faith to expanding, unchecked capitalism, obsessed with the notion of illimitable horizons, scornful of the Old World and devoted to sport; Duke, speaking as above in 1922, midway of the sordidly miraculous economic phase we term the New Jerusalem, indubitably was its prophet.

Duke, lusty grabber, bespoke a hearty, sanguine contentment. The New Jerusalem was an era of contentment unexampled—wherein the average simple man gratified his sensory yearnings in a present Heaven of motor cars speeding along concrete highways at forty-five miles an hour; motion pictures, and later, the talkies to reflect the astonishing folkways of Hollywood; the radio; wondrous towers of steel and concrete; electrical gadgets of a myriad utility; and above all, high wages for the poor, and monstrous profits falling, almost without let, into the laps of the owning classes. St. John's metaphorical tabulation of the visible glories of his New Jerusalem dwindles in comparison with the literal magnificence of a here and now paradise wherein the common man, too, had an abundance of material boons.

The custom has grown up of dividing the period between the beginnings of war-time prosperity and the end of the Coolidge New Era into two parts. Likewise is it the fashion to speak of the readjustment that took place in 1920 and 1921 as a depression, comparable as to rigour and importance with the classic economic and social convulsions of the '30's, the '50's, the '70's, the '90's, and from 1907 onward. Economists with a

social bias cite the post-war readjustment as an example of how frequently the machine directed by Wall Street breaks down. Traditional observers are prone to point to the prompt recovery in 1921 as evidence that the machine has within it reparative power; that, while easily thrown out of gear, it can, on occasion, as easily be mended. But historical comparison demonstrates that the so-called panic of 1920-'21 does not rate that dignity. Beginning in the early part of 1920 it ran its course in approximately a year. It was an abruptly violent phenomenon; an occasion of mercifully sharp liquidation. A grossly unwholesome speculation in commodities, including foodstuffs, was wisely brought to an end; and the Stock Exchange, under manipulation of "Buck" Duke, Jesse Livermore, George J. Whelan, Percy Rockefeller, and other large scale operators, busy as usual, after the Armistice, attracting the excessive profits of the country into the money market, experienced a sharp deflation.

The dislocation was grave enough—by all odds the most dismaying of the cyclical recessions punctuating the swift advances of the New Jerusalem—but the enormous accumulation of wealth, productive power, and avidity to consume quickly conquered it. Figures on industrial earnings and employment may be cited to prove a misleading conclusion. Industrial wages declined in 1921 to $8,193,000,000 from the 1919 peak of $10,453,000,000. The ranks of factory labor were diminished by 23.2 per cent. That tells a distressing story. But a story modified, when we recall that in 1919 virtually the whole able-bodied available population was at work. The farms had been robbed of from one to three million laborers. Women, boys, and old

men, pressed into service during the war, still clung to their jobs on the edges of industry. Industrial conditions in 1919 were abnormal. By 1921 wages had been reduced, a shift was in process from manufacturing to building. But despite dollar wage cuts, real wages remained higher. Workingmen in 1921 still drove to the factory gate, or the site of the rising Superba apartment house in their own motor cars, attired in the silk shirts which became, during that time, a symbol of laboring class arrogance to elderly folk of both sexes who lived on the accumulated toil of others.

Here was indubitably the most sensational liquidation of prices since statistics had been kept. A collapse in the economic structure of most of Europe and parts of Asia, a downward swirling securities market, a severe affliction to industry by virtue of a breakdown in the country's railroad system—and yet, so great was the impetus given by America's fabulous profit-taking in the World War that the country could pick itself up and by late in 1921 be launched again on the ascendant plane of prosperity. Henry Ford, hard pressed for capital, fought off Wall Street control in 1920 and transferred his crushing inventory to his dealers in all parts of the world. In 1920, his immense works were idle. In the first quarter of 1921, he hired 10,000 workers. By the second quarter he was producing at capacity. That, in epitome, represents the industrial cycle of 1920-21.

The fourteen-year phase from 1915 to 1929, indeed, is regarded by European authorities as a scarcely broken period of ascendant prosperity. Writing in 1929, shortly before the tall dam of credit was swept away in Wall Street, an eminent City of London observer,

sounder, we hope, in analysis than in prophecy, said: "According to any notion that we can derive from history, these years have been one long boom. Were some parallel to be found in any past event, we should expect the United States to have been ripe, any year of this period, for one of the most sensational collapses in history. But no such disaster occurs or has any appearance of occurring. . . . It is not as though there had been no checks to the process. There have been seasons of what in the United States is considered 'serious unemployment' in volume that would excite no comment in Europe. There have been deliberate attempts at deflation on the part of the financial authority centered in the Federal Reserve system; there have been 'wars' of the typical American type in certain markets, and scandals which astonish the European by their magnitude. Yet, allowing for the vastly improved management of the national financial machinery, and a certain, though at present disproportionate share of the same amalgamation tendency which has done so much for Europe, allowing even for the unexploited resources of a vast and relatively new country, the long sustained boom in financial values remains a breathtaking spectacle to the European. True, it is very widespread. It is said that every bell boy and hotel porter participates. . . . Physical disaster seems powerless against a country so immense, and with such developed means of communication. Fire and earthquake, cyclone and flood that would wreck a smaller community, are ineffective against the closely connected resources of a Continent. Is financial disaster possible? At the moment, it seems very remote." [2]

[2] "A History of Financial Speculation" by R. H. Mottram. Boston.

The depression of 1907 dragged a dreary course across the financial and commodity markets until the inauguration of Woodrow Wilson. Thereafter, as we have seen, a sharper decline in exchange of commodities set in and by 1914 the financial weather grew nasty. We seemed to be in for profounder depression when a widely noted bomb outrage in Serbia changed the course of world events and provided indirectly for our economic delivery. A familiar story. Fortuitous circumstances bringing recovery. Helpless under the accumulating effects of unwise and greedy leadership, the country's credit structure required—as it had after the depressions of 1837, 1857, 1873, and 1893—a powerful external factor to effect a cure. The first reaction to the war in Wall Street paralysed the orderly exchange of securities. European nationals hastened to liquidate their always large American holdings and for four months after the crescendo of hostile declarations, the Stock Exchange locked its doors, inactive for the first time since 1873.

But in October, 1915, when J. P. Morgan and Company underwrote an Allied loan for $500,000,000 to buy war supplies in this country the post-1907 depression came to an end and the American people stumbled into the New Jerusalem. Loan followed loan, credits were multiplied into the billions, American factories whirred and roared as they turned out shells, guns, ships, airplanes, tanks, uniforms, and rifles; the grain farmer sowed early and reaped late, the Chicago meat packers slaughtered beeves and hogs by the hundreds of thousands; Southern planters, so recently beggared that Northern well-wishers were buying bales of raw cotton out of sentiment, rolled in wealth. By 1916, the coun-

try was mobilized on an industrial basis. In 1917, when we entered the war and simultaneously a period of mass imbecility so cruel that an intelligent, humane adult recalls it reluctantly, the country's strong boxes were heavy with Allied gold and the country's industrial and agricultural machinery organized on a wartime production footing supported by a fabulously inflated credit scheme. First and last we loaned the Allies $16,000,000,000 to buy our goods at emergency prices.

The American Nation fought ostensibly for democracy from April, 1917, until November, 1918. We emerged from the war with "all the gold in the world." Literally, no fluid gold existed outside the vaults of Wall Street except closely guarded reserves in European central banks and a trifling amount circulating in Sweden, Holland, and Switzerland.

Unexhausted materially, fortified as no nation ever had been in all history with magic metal, the United States remained in the New Jerusalem ushered in by the House of Morgan in October, 1915. When the current J. Pierpont Morgan justified the large foreign accommodation as "imperative to preserve trade under existing conditions," he unintentionally, no doubt, misspoke himself. He meant that the loan would stimulate business to heights untouched since 1906.

Freed of the war burden in the late Fall of 1918, Wall Street, which had enjoyed a gratifying trade in "war babies" during 1916 and 1917, plied its accustomed trade of luring the country's savings into securities, the "most recondite of investments." The purchase by 29,000,000 citizens of Liberty and Victory bonds had familiarized a vast new public with the tangibility of debt tokens.

The industrial machine quickly adjusted itself to post-war requirements, commodity prices leaped ahead, wages remained on the wartime plateau, credit further was inflated and in a few months the bankers would be warning that credits indeed were "frozen." It was no fault of the speculative fraternity in Wall Street that a panic did not more quickly descend. By Spring of 1919 huge gambling pools contrived a bull market described at the moment as "historic." The Fifth Liberty Loan, for $4,500,000,000, met with warm public approval, being oversubscribed by $749,908,308. The country thrived, although sardonic observers detected the customary stigmata of prosperity by inflation. The Stock Exchange continued to absorb wartime profits through a speculative fever. The peacetime boom was under way.

"While there were a number of violent fluctuations in the stock market during the early summer, due to the enormous inroads which this gambling spirit continued to make upon the bank reserves of the country, the trend of values still continued upward and at times the gains were sensational in character. The movement was particularly violent about the middle of July, when advances ranging from three to fifteen per cent in some of the highly speculative issues were not uncommon in a single day. This was in spite of the fact that the banks were demanding twelve per cent on loans, with industrial securities as collateral. In the meantime, signs of industrial unrest began to appear on every hand." [3]

The Federal Reserve Bank, a new factor in a troubled financial situation, issued a peremptory warning in late July against the "speculative tendency of the times,"

[3] S. S. Fontaine, *New York World,* Jan. 1920.

whereupon a sharp liquidation in stock prices began, growing "violent" in August.

"During the first part of November signs that the great rise in securities which had continued through the greater part of the year, with intermittent periods of reaction, had met the immovable object of credit denial became apparent. During this period, however, the Stock Exchange had enjoyed the greatest prosperity. . . . The impulse to the great readjustment movement on the Stock Exchange was given by the action of the Federal Reserve Bank on November 5 in advancing their rates of rediscount. . . . There was a sharp break following the announcement. . . . Several days later there was another violent upward movement in stock. The money market responded with equal violence. On November 6 the rate was 20 per cent, on November 11 it went to 25 per cent and on November 12 it jumped to 30 per cent, the highest level since the great financial cataclysm of 1907. This broke the backbone of the gambling movement. The speculators were in terror as the banks withdrew the helping hand which had so generously been extended to them for months. On one day, General Motors, which had been one of the principal leaders of the overexploited issues, broke 68½ points. From that time until almost the close of the year the market continued its downward course."[4]

But the end was not yet. The stock market encountered bumpy going throughout 1920 and until June, 1921.

Scandals beset the Stock Exchange. William C. Durant, the astonishing optimist of the automotive age, was sold out of General Motors for the second time in

[4] *Ibid.*

July, 1920, by Edward R. Stettinius, Morgan partner, with the ardent help of Pierre S. duPont, and a rising motor magnate named John J. Raskob. Allan A. Ryan, who had acquired the Stutz Motor company, lost it as a result of a dramatic corner wherein the common stock of a secondary automobile factory in Indiana was forced to $391 a share. Luckless shorts settled under Ryan's pincers at $551 a share, but he suffered ostracism from the Wall Street community. Clarence Saunders, an inventive Memphis grocery man, also created a stir in Wall Street at about this time. He engaged Jesse Livermore to "run" his Piggly-Wiggly stock and created a virtual corner by failing to issue 100,000 shares he had authorized. Saunders went down in temporary ruin.

Astonishing days on the Stock Exchange—although less than three columns of space were required in the 1919 boom to list the quotations in the daily press. The public entered this market gingerly, being absorbed in more violent pleasures. Perhaps that is one reason why the speculative fervor of 1919-1921 left the country basically untouched. The stock market remained largely within professional limits, as it did not in 1901, and 1907 and as it assuredly did not in the vast dementia of 1927-1929. Durant might fail for $90,000,000, as he did in July of 1920, but the public, driven into jitters by the menace of Red bombs and I. W. W. mobs swaggering through the Northwest; deliciously fretted also over the provocative antics of the flapper; a public which bluntly rejected the new internationalism of Wilson in favor of the reassuring normalcy of Warren G. Harding; which became vastly annoyed by a railway shopmen's strike and the impo-

tence of the common carriers, raged at food profiteers and valiantly conducted a buyer's strike; neither knew nor cared much about Durant's fate.

A violent decade, rambunctious, suffering a nervous hangover from the War; sucked dry of political or social idealism; hard, materialistic and a bit silly.

The Durant-Morgan collision is notable as an incident in the enveloping of automotive properties by Wall Street in conformity with the custom of the country's money seat. Automobile manufacturers struggled to survival in a fiercely competitive field without the help of Wall Street. That industry, as with oil, steel, textiles, tobacco, farm machinery, rubber, and the ruck of the vital services of the machine age, passed through its developing stage—when avuncular support from the financial center might have proved an accelerating and sustaining influence—without benefit of the great bankers on the tip of Manhattan and their compliant instrument, the Stock Exchange. It is the gallant custom of Wall Street to appropriate an industry only after it has justified itself by continuous earnings, social utility and stable management.

Durant insists that an excessively optimistic expansiveness promoted by John J. Raskob put General Motors at the mercy of stock market manipulation. In any event, Durant—the mildly eccentric former tobacco salesman, who bars smoking in his hermetically sealed offices and fulfills the American notion of a magnate's versatility by transacting business with a dozen men while in the barber's chair, who bestowed a prize of $25,000 for an ideal plan to enforce prohibition—took his ease, a refugee from the metropolis's heat, on his Long Island estate in July, 1920. The control of

General Motors, an industrial empire which Durant had put together, beginning in 1908, with preposterous disregard for the real worth of its constituents and in the hope of saddling its overcapitalization on stock market purchasers primarily and the consumer eventually; an industrial empire with assets aggregating more than many a storied kingdom, was at the mercy of the stock ticker.

The afternoon of the 27th, with General Motors pegged at 27-28—ten split shares having been exchanged for one of the old common—the telephone carried a dire message to Durant's retreat. General Motors had gone to hell. One hundred thousand shares lay heavily on the market. The price fell away to 25-24-22—and would close the day at 20½. Durant, mystified, met the crushing attack in the fashion of old Commodore Van Derbilt. He directed his brokers to buy. He telephoned his associates in the General Motors' pool for support. He began an inquiry into the source of the 100,000 shares. Within an hour he knew the worst. Stettinius, director of the bankers' syndicate which was underwriting a new issue for General Motors, had unloaded part of his bonus. Through Harry Content, wiliest broker on the floor, disciple of "Cougar" Jim Keene, Stettinius had sold 100,000 shares transferred to him at 13 on a scale downward from 28. The syndicate profited by well above $1,000,000.

Durant called at J. P. Morgan and Company the next day and suggested a truce. Terms were available. The Morgan partner believed General Motors still out of line after yesterday's drubbing. He suggested Durant join him in a syndicate to go short 200,000 shares.

Durant refused—on the ground, he three years later

told Clarence W. Barron, editor of the "Wall Street Journal," that he didn't like short selling and, besides, believed "that our business was the constructive and upbuilding side." The late Mr. Barron perhaps smiled conventionally behind his white whiskers at the suggested tableau—Durant, the whirlwind Wall Street plunger, admonishing a partner in the House of Morgan against playing bear.

The raids—for they were a series, which drove Durant in 1920 from the helm of General Motors—were remarkable for magnitude and also for the curiously contrasting forces they represented. The analytical banker, Stettinius, and Jesse Livermore were allied, without contact, in depressing General Motors; driving its stock irresistibly over Durant's dikes. Livermore, it is generally credited, began to sell out the automotive octopus in the Spring of 1920. Livermore, genially hailed in the Street as the "boy bear" when he emerged from the 1907 panic with $3,000,000 net, was believed in 1920 to have discovered General Motors' weakness before any other Wall Street operator. He happened, the legend goes, on information that the Federal Reserve Board objected to practices of the General Motors Acceptance Corporation and had penalized Kansas City banks for accepting the corporation's paper. The irregularities, it seemed, were merely technical. But proceeding from that point, Livermore's inquiries disclosed to him that the giant combination had overextended itself.

Raskob's expansion program, adopted by the board—reluctantly by himself, Durant said afterward—called for added millions. Sixty-four millions, to be accurate. The stock then was quoted at 38. Durant undertook

to sell an English-Canadian syndicate enough shares at 20 to realize $36,000,000. The deal finally was "buttoned up" but the Anglo-Canadians were not to complete payment until December 1. Meanwhile, the duPont interests, which had invested $50,000,000 of wartime powder earnings in motors, and Durant besought J. P. Morgan and Company to underwrite the balance, $28,000,000.

Stettinius, acting for the Morgan house, agreed, according to Durant, to take $28,000,000 at $20 a share, less $1 commission—the stock having by then declined under forced selling to 28. Stettinius asked also the privilege of buying 200,000 shares at $10. The Morgan version of that transaction is that the duPonts asked the bankers to buy into the corporation as an investment. Stettinius agreed, provided he could buy at the same "inside" price as the duPonts—$10 a share. A compromise, one of those mystifying but profitable bookkeeping incidents in high finance, was effected; the stock going to J. P. Morgan & Company at $13, the duPonts having bought it from the Chevrolet Motor Company treasury.

Here, then, was the setup—the Anglo-Canadians buying, in extended payments, $36,000,000; Morgan taking $28,000,000, Livermore and other bears attacking the stock—and Durant, struggling desperately to keep control, buying to sustain the price. Durant organized one pool to buy stock, guaranteeing the members against loss. The stock fell away to 30. He formed another syndicate to support it at 28.

Then, with the market apparently pegged and Durant taking a breathing spell on his Long Island place, the blow fell.

"One day—it was July 27, 1920—100,000 shares of General Motors stock were suddenly dumped into the market," wrote W. A. P. John in an inspired article in the magazine "Motor." "The market was demoralized. General Motors stock broke to 20½. Durant—caring not one whit for money and caring everything for the thousands who believed in him—bought that stock. More came into the market, at a lower price. He bought that, too. Then more and more—always at decreasing prices, which made all his previously acquired holdings worth just so much less. Alone, unsupported, single-handed and smiling, he fought the battle, purchasing the stock down to $12 a share, endeavoring to save General Motors for those who had made it possible ten years previous.

"Finally the odds became too great even for Durant's great courage and greater faith. His friends had been extricated without loss. But his entire personal fortune had been sacrificed. In a few short months he had turned himself from a man worth $90,000,000 to one owing $2,000,000."

The duPonts and the Morgans "took Durant over." He received something like $27,000,000 for his equity in General Motors. It barely satisfied his accounts with brokers.

The sanguine Durant seemingly was through in Wall Street. Yet within the decade, he would be back in command of greater resources than ever, manipulating a billion dollar "prosperity consortium," which, with other factors, would raise more hob with the country's well-being and grievously afflict more citizens than any war fought by our armies. His eviction from General Motors undoubtedly marked the end of the most titanic

Stock Exchange movement until the Coolidge New Era reduced all previous operations to the dice-play of pigmies. But it seems singularly undramatic by comparison with the gigantic struggles we have examined in Wall Street's past. The stake involved was huge, perhaps not so great relatively to the country's corporate aggregate as that in certain earlier collisions but great enough to take one's breath. The figures involved—Durant, the prohibitionist and health faddist; the prudent, disciplined Stettinius; the buttery and naïve Raskob—simply do not loom as giants. Here were no high-and-mighty, whiskered pirates sprawling across a rowdy Wall Street canvas; no arrogantly brusque money-masters holding the Street servile. Here were seemingly mild, rather unimportant men personally, manipulating a machine as powerful and deceptively suave as a hydro-electric dynamo at Niagara Falls. The day of the Titan was past. Nothing here to invoke your awe, but, as we shall see later, an institutionalized, irresponsible machine capable of making the blood run cold in contemplation of its capacity for widespread destruction.

Durant's departure from General Motors, which went unannounced until mid-November, put no period to the declining market but the word, on November 22, that the duPonts had supplanted Durant furnished a temporary peg. A month later the list broke again from two to twenty points, reaching the lowest levels of the year, which later were to be worsened in the Christmas Eve session. The declines continued throughout the first six months of 1921. On June 20, Steel sold down to 71, the lowest price since 1915. But next day the market rallied. Obliging bankers, believing the

slaughter in values had gone far enough, offered $50,000,000 for time loans.

Perhaps the bankers and their friends among the great speculators were again engaged in the profitable Wall Street custom of buying up the country's assets when they reached the bargain counter. The suspicion was lively during the New Jerusalem that Wall Street bankers, through their control of the money rate, sold equities at a high level and bought them back after they had contrived a ruinous decline.

Lord Swaythling, principal in the City of London banking firm of Samuel Montague and Company, looked in on Wall Street during the New Jerusalem. Upon his return to London he made the following pointed comment on the practice alluded to in the foregoing: "My visit to the United States in 1919 convinced me that you have really a money trust in that country. In 1920 they put up the rate of money to fifteen per cent and dropped the stock market and the banks bought in all the stocks. This is what they are going to do again now. There is no excuse for higher money rates in New York. I have always feared that the same thing might take place in London, but the government keeps too close a watch over the bankers here to permit any such thing." [5]

The so-called stock market panic of 1920-21, which paralleled the drastic peacetime deflation in commodity prices and wages, and was influenced by the gyrations of foreign currencies in which Wall Street speculated not too shrewdly (taking enormous losses) was at an end eighteen months after it began. The

[5] "They Told Barron" edited by Arthur Pound and Samuel Taylor Moore. New York.

stock market forecast neither the beginning of disaster, nor its end—a commentary on the oft-repeated claim of Stock Exchange apologists that price trends prognosticate general business conditions. We knew from sharp experience in 1929 that the stock market tailed the general business indices downward by six months. In 1921 the situation was this wise: In the first quarter, Henry Ford, the Dodge Brothers, Packard Motor Car, the Studebaker works and textile mills in New England and North Carolina, resumed industrial output at a rate approaching the pre-panic peak; in the second quarter the mills of the United States Steel Corporation, which dropped in production from 80 per cent of normal in January, 1920, to less than one-half in the Fall of that year, were again turning out ingots, rails, bars, etc. at 80 per cent of normal. In April the Department of Labor reported substantial gains in output and payroll in eight major industries. The country obviously, if you consulted the industrial charts, was on its feet again and racing away for the New Era. But the stock market did not respond to signs of renewal until the end of June when selling pressure was removed and the banks, no doubt taking note that improved earnings soon would be enhancing common stock returns, made available a fresh load of credit and thus stimulated a hindsight bull movement.

We were plump into the Motor Age before Wall Street even surmised it.

What cushioned the country's prosperity against the deflation of 1920-21? The answer is various, the most frequent being that an accumulation of gold in this country and the wartime depletion of inventories here and abroad levied a demand on our mills which enforced

large scale production, huge payrolls and great profits. That is plausible but it ignores another factor, one often neglected as we too myopically survey the enormous industrial plant dotting the landscape east of the Mississippi, namely, the condition of the farmer. The agrarian East, North, West and Southwest, wheat grower, dairyman, cotton and tobacco planter, livestock grazer, fruit and truck grower, had never done so well since the first colonies were planted on the seaboard as in the immediate post-War era. Nor had the Northern and Western farmer, proverbially kicking against the pricks, ever grumbled so loudly except in the dear money, Populist decade from the late '80's to the close of the '90's. The farmers in the post-War era represented roughly one-quarter of the population but a good bit more than one-quarter of the consuming power. They and the village dwellers and western city enterprises dependent upon them made up then, as now, nearly half the country's purchasing possibility.

The yellow tide of wheat flowing eastward toward hungry Europe brought back a vast current of gold. The farmer, groaning at the high prices, bought tractors, combines and motor cars, built silos, installed telephones, enlarged the home place, arrayed the women folk in silks and precious stones, wired for electric lights, graphophones, sent the children to college, traveled to California, Washington, Niagara Falls and raised hell because hired hands, tempted by the lure of city wages, asked $4 a day to grow $3.50 wheat. Freight rates were restricted by the heavy arm of the government. The local banker unwisely urged every competent husbandman to become a capitalist, and land throughout the fertile alluvial plain of the Mississippi

soared to $300, $400, even to $500 an acre, as the farmer determined to get-rich-quick fast by employing easy credit and the labor of others.

The years 1919-1920 saw the farmer established in his own particular heaven. Wheat was abundant and in unexampled demand abroad. In the former year, the farmers exported 287,400,000 bushels with the top price at Chicago, $3.50 a bushel. The second year, with the market again high at $3.50, 222,033,000 bushels went over-seas. And significantly, in the fiscal year 1921, which saw the most drastic declines in securities and manufactured goods prices, the wheat states sold 369,313,000 bushels of wheat abroad, to Europe, to famine-stricken Russia and China and to compensate a 69 per cent crop failure in India. The top price in Chicago for that year, ending June 30, 1921, had fallen away to $2.06¾. But the wheat exports brought back nearly $600,000,000 in gold and wheat products nearly two-thirds of that sum more.

The farmer prospered enormously. He had plenty of ready money. And the railroads, their facilities always taxed by a bumper crop movement, saw their greatest congestion and prosperity in many a lean year. The railroads, crying for equipment after the wartime dearth, ordered steel in unparalleled volume. It was the story of 1897, 1898, and 1899 over again. The railroads, the greatest unit consumer of producers' goods, released from beggary and in imperative want of steel; the wheat and livestock farmers, advantaged by the startling reduction in automobile prices in 1921, heavily buying motor cars, machinery, textiles, and luxuries. Fruit and vegetable farmers on the Pacific slope, in Florida and elsewhere, knew a gratifying prosperity due

to the still active buying power and the improved standards, together with a newly-stimulated taste for citrus fruits and green vegetables, among the middle classes.

It is impossible, without studies too exhaustive for the scope of this work, definitively to appraise the part played by agrarian purchasing power in sustaining the country through the convulsion of 1920 and 1921. But buying power obviously existed. And it forms an attractive subject for speculation to suppose that the farmer, plentifully supplied with money during the boom years, was able to take up the slack from the industrial East and thus hold for the whole country the benefits of the New Jerusalem.

XIV—AN END TO FRONTIERS

THE latest frontier in the beguiling American succession vanished swiftly from sight on October 29, 1929. On that day, while a raw mist drifted up from the harbor past the Castle Garden that was—point of departure for hordes of pioneers who took the long, dustry trek westerly—and while hoarse brokers wrestled with a 23,000,000-share liquidation, the American people stampeded in panic haste from their newest promised land, Wall Street.

It was an appallingly complete exodus. The millions of trustful, money-hungry utopians who had rushed into the lower end of Manhattan, personally or by checkbook proxy, during the New Era, departed in much greater haste than they had arrived. Baited into the adventure by an awestruck reverence for the profitable possibilities of technology, and by the unconscionably ruddy exploits of a band of newly-enriched Western market operators, the pioneers, new style, had determined by late October that it was time to move on, to "git." They got.

They left behind—although few surmised and none murmured the dire prediction—a Coolidge New Era, so-called, dead as a doornail; a gaudily-bedight New Jerusalem soon to pass into fond and faintly incredible memory; and a Wall Street, central nervous system of a Continent's finance and industry, which presently would languish, by contrast to the flushed days of its opulence, much as a discarded boom town of the old West.

Departing, the fed-up frontiersmen, new style, likewise signallized what now is generally believed to have been the genuine end of an economic epoch. The stark ruin which flowed laggardly along the burdened ticker that day broadened into the breakdown of a whole structure, built upon trading for profit, on a national and international scale. The numerous rich, the well-to-do, the less prudent among the saving poor had gambled riotously. They would pay, were paying, but so would the rest of the western world. ". . . America more than any other great country has a mass psychology which is subject to moods and impulses of a range and intensity not known elsewhere. These conditions account for the scale of the speculative boom of 1929. In actual folly, it has often been more than equalled. Nothing in recent years, for example, has touched the wild frenzy of the South Sea Bubble in England. But in range and in volume, and consequently in its far-reaching results, the 1929 speculation has had no equal or rival in economic history." [1]

The New Era spectacle—a vast section of the population barging pellmell in a glorified gold rush into a novel, to them unexplored, and a hazardous promised land—can most easily be explained by the frontier analogy. It bore resemblance to the incessant urges which sent the American for more than a century, ahorseback, by covered wagon and homeseekers' train in search of the booty that lay this side of far horizons. But, unlike its horizontal predecessors, the frontier of the 1920's rose perpendicularly. Science had raised it; the manifold wonders of applied science promising ease, wealth, security and distinction for every man, not in the

[1] "Recovery, The Second Effort" by Sir Arthur Salter. New York.

next valley, but here and now, and immortally. No wonder the science-befuddled American of the New Jerusalem took to the trail again!

We had lost, as Mr. James Truslow Adams points out in "The Epic of America," our enormously significant physical frontier in 1890 when the Census Bureau reported that "the unsettled area has been so broken into by isolated bodies of settlement that there can hardly be said to be a frontier line." Thereafter, the lure of better times just beyond the ridge, the hope of a better day farther west, which had teased Ninteenth Century America into its Continental destiny, diminished in influence over our national life. The tangible factor which had hurried the acquisitive, unsatisfied American across the Alleghanies, through the Cumberland pass, by the Erie canal, across the Ohio and Mississippi, over prairie and plain and down the westerward slopes of the Pacific sierras had disappeared from among us.

But here, in 1926, an intangible frontier lay open. The old restless impulse to move on, to get ahead, stirred the descendants of the men and women who had tamed the Continent on both coasts and throughout the interior. Here, again, were boundless opportunities. New millions to be made quickly, not out of timber, coal, gold, wheat, silver—but out of a benevolent science. Technology replaced Mother Earth; common stock certificates in Radio, General Electric, General Motors, Westinghouse, A. T. & T., instead of sections of land or mining claims.

An easy, careless frontier wishfulness prevailed in Wall Street during the astonishing bull market. It infected, finally, powerful bankers, industrialists and ordinarily sage economists, who came to believe the new

doctrine that mankind, in America, had solved the problems of want, of poverty, of loss, failure and recurrent depression. "A theory even gathered force, on the eve of the greatest depression in history, that a 'new economic era' had been reached; that progress would henceforth be continuous and that the oscillations of boom and slump belonged to past history."[2] Boomtime manners, and morals, prevailed as well. The financial community, scandalously issuing shady securities, adopting high-pressure, "dynamiting" methods to force stocks and bonds on the public, permitting racketeers to launch dishonest investment trusts, greedily headlong in abetting Stock Exchange gambling, exhibited no very admirable panorama to social critics who insisted upon the dogma of human progress. Here were exhibited the selfsame, sweaty, money-lusts displayed by tulip-addled Dutchmen in the Seventeenth Century, by the profit-seduced French who followed John Law into the Mississippi Bubble, the English stock-jobbers who chaffered and huckstered in 'Change Alley during the South Sea craze, and the Goulds, Drews, Van Derbilts and their imitators who churned the piratical waters of Wall Street during the post-Civil War bonanza.

So much for the bankers, economists, investment counsellors, industrialists, brokers, promoters, racketeers, customers' men and market operators who flourished in Wall Street during the New Era. The outsiders, "the public," the plain men and women who looked up from the material wonders of the New Jerusalem to find this vertical frontier, behaved no better. Endowed with the traditional American notion that any man, whether he is successful at his own trade or business, can get rich

[2] *Ibid.*

quick provided he is furnished the right tip, the plain people moved in a mass into Wall Street once the relationship between the wonders of science and stock gambling winnings had been pointed out to them. They were up and away for the new frontier as soon as they learned that Jones, next door, had taken $2,700 out of a Wall Street flier in the marvels of Radio.

And what a frontier! The American, in the tag end of the New Jerusalem, lifting his eyes, beheld enchantments more ravishing than any ever confronting man before. It was an age veritably of magic. Jones sat at home, comfortably sipping a mug of homebrew, and heard the views of Senators and beauty experts. He twirled a knob and the clatter of a night club stimulated his hormones. Television, he reminded himself, was just around the corner; a device which would enable him to watch Battling Greenberg fell Young Jack Dempsey without stirring from his fireside. Lindbergh flew the Atlantic, alone and on schedule. Stunt aviators were taking off and settling down at all points of the compass and on all the continents. Jones read in his Sunday supplement repeated stories from Schenectady and Pittsburgh of laboratory-engendered thunderbolts capable of shattering mountains. The atom was splintered, ships and airplanes were directed by remote control, invisible electric beams worked their will on massive mechanisms and opened and closed doors. Robots moved about at the instance of impulses transmitted by telephone—crude substitutes for man-power, yet pregnant with suggestions as to the future. Henry Ford was promising wages of $27 for a shortened working day, in the next generation.

The incessant talk about science and technology and

the fantastic uses to which new elements could be put, dazed Jones. Assuredly, the New Jerusalem was a magnificent period in which to be alive. Moreover, it obviously was the time to "get in on the ground floor" by buying shares in the new industrial giants which were exploiting the marvels of science.

The preoccupations of Jones's betters, incidentally, also were with science. Biology waged a rear-guard action against the Mosaic cosmogony, as revealed in Genesis, with Tennessee as the setting. The Protestant persuasions found themselves fretted by a gallant attempt on the part of the more self-consciously learned clergy to "reconcile" scientific interpretations to historic dogmas. The intellectual forces in revolt, which during the earlier days of the century had espoused political and economic reforms, devoted themselves for a space to vindicating science as a new faith and the scientific attitude as a new way of life. The whole reliance on social amelioration and political collectivism had vanished. The new truth was science, or more accurately technology, and the fruits of research were to set man free. Likewise, and what was much more to the point, make him rich.

Viewed against this perpendicular frontier, the Stock Exchange hysteria, the delusion that common stocks of corporations employing the new technology would rise perpetually in value—the whole childlike cult that common stock ownership eventually would enrich all the shrewd and provident—are easier to comprehend. There were other factors, naturally. The faith in eternal prosperity through technology only prepared the ground.

Primarily, the most important were the dynamics

supplied by the swollen tide of industrial profits during the New Jerusalem, a tide which overflowed consumption channels and irresistibly flooded Wall Street. Surplus, war-won yellow bars, resting in fortified sub-cellars of the Federal Reserve Bank, mutely inciting to credit inflation . . . the disproportionate share in corporate profits—mainly due to technological advances, high pressure advertising and installment buying—which fell to the rich and the newly-emerged class of high salaried entrepeneurs, experts, vice-presidents, advertising counsellors, sales advisors; the ruck of plausibly useless yes-men who went into conference, "contacted" and plagued the administrative and sales ends of big business during the New Era . . . Secretary Mellon's wholesale scaling down of income supertaxes . . . the towering edifice of credit by means of which the country lived beyond its income for several glittering years. These and other elements helped to catch up the bemused American, giddy with the concept of unlimited industrial expansion, and hurl him into the midst of the boom.

But something more than an immense credulity and a fattening bank account was needed to propel the forty thousand millionaires, and several millions of well-off Americans, into the whirlpool of stock market speculation in the winter of 1926-'27, when, in the midst of a minor depression in trade, the latest frontier dangled its illusive delights. An impulse was needed to incline the speculative toward Wall Street, which the public had not visited since 1901. Pioneers to lead the way.

Who were the pioneers staking out the new frontier? Appropriately, perhaps, they came out of the West, some of the hardiest indeed hailing from the latest industrial boom town, Detroit. Ten men, or a

dozen or, as a credible version has it, twenty-five, laden with excess millions exploited from the story-book rise of the motor car and related industries descended into a lackadaisical stock market, whipping it into a cascade with the freshets of their millions. Untutored in the mechanics or theory of security exchanges, but armed with the unyielding optimism of the pioneer, the western money barons found a resourceful and like-minded boss bull to guide them, in William C. Durant. The seven Fisher brothers, one-time blacksmiths, drawing down $300,000,000 liquid profit from their automobile body business, lugged it to Wall Street. Arthur W. Cutten, in appearance a prairie deacon and cattle feeder, methodically putting his wheat pit millions into a long pull position in the Stock Exchange. These and others, formed into a group identified in the press as the "Big Ten," and later expanded, bought common stock first in one, then another solid corporation. Never was so concerted a bull movement. And as they bought, prices went up. Baldwin Locomotive—from 92 in 1926, to 261 in August, 1927—Union Carbide, Sears, Roebuck; International Harvester, Texas Corporation, United States Steel. The Fishers were buying in Baldwin, Westinghouse, American Rolling Mills, American Steel Car. Prices rose steadily, day by day, as the new bulls concentrated on key stocks. Bears operated vainly for the most part; professionals trading cautiously. The bulls overwhelmed them—buying, buying, buying. And presently the public took notice; tentatively in 1927, and increasingly, until in 1928, the market, as everyone knows, became maudlin, irresponsible.

Durant, self-confident, mildly eccentric, fanciful as

any poet of tradition and perhaps the wiliest bull of his time, led the big parade. Broke in 1920, having lost $90,000,000 in his attempt to retain General Motors, he had a new grub stake by 1923. Four years later he dominated the Stock Exchange. The story of his operations is circumstantally related by Mr. Earl Sparling, who wrote: "He rode the 'greatest bull market' by means of a bull consortium so gigantic in aggregate wealth and power that there is nothing in Wall Street's one hundred and forty years of Arabian Nights to furnish even a contrast. He used not only his own new millions on the constructive side of the market but the millions of many associates, of at least twenty-five multi-millionaires who had confidence in him and his judgment. He was the bull of bulls. He handled in 1928 more than 11,000,000 shares of stocks, representing an investment of more than $1,250,000,000. He handled stock investment almost as large in 1926 and 1927. In addition to the $1,250,000,000 put into the market under his personal direction in 1928, at least two or three billions more were invested individually on his advice by members of the clique, three or four billion dollars in all, marshalled under the command of one man. No man in Wall Street's history had ever wielded such power." [3]

The stock market struck its gigantic stride in March 1928. The bull movement became a stampede. The public rushed in, treading the heels of the great operators for the rise. True to his attachment to science, Jones preferred shares in radio, automotive and electrical corporations at first. Radio and General Motors

[3] "Mystery Men of Wall Street" by Earl Sparling. New York.

raced across the illuminated ticker tape in brokers' offices.

In February, 1928, the Charity Organization Society found unemployment worse in New York City than at any time since the War and its appropriations taxed by appeals from the poor. Yet here was the market prancing like a colt a month later. On March 9, General Motors went up 9 ¼ points; the next day, Radio rose 12¾ points. Frederick Lewis Allen, social historian of the New Jerusalem, described the amazing phenomenon as follows:

"What on earth was happening? Wasn't business bad, and credit inflated, and the stock-price level dangerously high? Was the market going crazy? . . . What was actually happening was that a group of powerful speculators with fortunes made in the automobile business and in the grain markets and in the earlier days of the bull market in stocks—men like W. C. Durant and Arthur Cutten and the Fisher Brothers and John J. Raskob—were buying in unparalleled volume. They thought that business was due to come out of its doldrums. They knew that with Ford production delayed, the General Motors Corporation was likely to have a big year. They knew that the Radio Corporation had been consolidating its position and was now ready to make more money than it had ever made before, and that as scientific discovery followed discovery, the future possibilities of the biggest radio company were exciting. Automobiles and radios—these were the two most characteristic products of the decade of confident mass production, the brightest flowers of Coolidge Prosperity: they held a ready made appeal to the speculative imagination. The

big bull operators knew their American public. It could not resist the appeal of a surging market. It had an altogether normal desire to get rich quick, and it was ready to believe anything about the golden future of American business. If stocks started upward the public would buy, no matter what the forecasters said, no matter how obscure was the business prospect.

"They were right. The public bought.

"Monday the 12th of March put the stock market on the front page once more. Radio opened at 120½—and closed at 138½. Other stocks made imposing gains, the volume of trading broke every known record by totalling 3,875,910 shares, the ticker fell six minutes behind the market and visitors to the gallery of the Stock Exchange reported that red-haired Michael Meehan, the specialist in Radio, was the center of what appeared to be a five-hour scrimmage on the floor. 'It looked like a street fight' to one observer."[4]

Other "prosperity consortiums" and bull pools worked mischief in Wall Street at the same time—on the whole and in the long run the most disastrous crew in the history of Stock Exchanges—but a catalogue of the New Era prosperity "cappers" and "shills," always including President Coolidge and Secretary Mellon, is a melancholy story, often told. The most saddening literary product of the 1929 panic is a slender, red-bound book entitled "Oh Yeah?" wherein Mr. Edward Angly compiled from the press the solemnly witless observations and prophecies of statesmen, bankers, industrialists, economists and editorial writers before and after the crash. Public leaders who said anything in restraint of the frontier madness or prognosticated sen-

[4] "Only Yesterday" by Frederick Lewis Allen. New York.

sibly with respect to its dreadful aftermath were so rare as almost to escape Mr. Angly.

Jeremiahs were scarce enough. During no previous time of speculative inflation had there been so few men in positions of authority who were informed, alert and admonitory. Several reasons occur for what is now conceded to have been the general fatuousness of Wall Street opinion respecting the permanence of the stock market trend. One was the unprecedented duration of prosperity. Fourteen fat years had been spun out of war-won gold. The economists in 1929, fortified with the most imposing array of statistics ever ready at hand, noted optimistically that inventories remained low and no inflation appeared in commodity prices or currency. Heretofore, business depressions usually had been foretold by rising prices, enlarged inventories and, more often than not, inflated currency. Those threatening factors were missing in 1929. In addition, export trade held up, although it did not increase, from 1926 onward and general business indices, strengthened by the adrenalin of installment buying, remained firm until May of 1929. The obvious and traditional danger signs were wanting. And bankers, business leaders, practical economists, were not, in the face of the universally cheerful hubbub, searching for concealed warnings.

They might, if so disposed, have found causes for grave apprehension in these factors: (1) The progressive extinction of the farming population's buying power; (2) the fact that real wages remained virtually stationary from 1925 onward while technological devices each year retired more workers from their benches; (3) the gradual saturation of the domestic motor car market; (4) the hastening tendency toward

concentration of income; (5) the squandering of billions wrested from American productivity in foreign enterprises of dubious security; (6) the withdrawal of credit from general business through the competition of high call money rates; and, (7) the grievous waste of other billions of dollars forced into the maelstrom of Wall Street, where they served no useful purpose and added only fictitiously to the country's productive capital structure.

Worst of all, the misuse of the proceeds of the country's toil created a staggering burden of debt. Uninitiated, as in the past, into the metaphysics of credit, the Wall Street community played the country false in the New Era. It had periodically done so since the rise of modern industrial capitalism.

Paul Warburg, that rare bird among bankers, a financial scholar, understood this before the black days of October and November, 1929, and the cruel months succeeding, made it plain to his unrealistic colleagues. Dwight W. Morrow, historically-minded, a genius at assessing reality, likewise foresaw the inevitability of the approaching collapse. But Calvin Coolidge, Herbert Hoover, Andrew W. Mellon, Charles E. Mitchell, Albert H. Wiggin, the current Morgan and his partners, nor any of the great industrialists, seemingly perceived any occasion for alarm as the speculative currents rose outrageously during 1927, 1928, and 1929. President Coolidge, indeed, and Mr. Mellon periodically supported the bull stock market with statements which could only be interpreted as encouraging speculation. In January, 1928, Mr. Coolidge, identifying the rising stock market with the new cult of perpetual prosperity, denied that too much money had been diverted

into brokers' loans to support margin traders. His utterance, clothed with Coolidgean augustness, stirred the market into renewed excess.

Mr. Warburg, uninterested in the political effect of continuing prosperity, took a different line. In 1928 and in 1929, he publicly warned Wall Street that "inflation under all and any circumstances is a pernicious evil." Early in March 1928, when the market attempted to justify its reputation as a prophetic agency by trending downward, (being restored artificially through the propaganda of leaders) Mr. Warburg pointed out in an address that ninety representative industrial utility and railroad common stocks had been increased in stock market value by $15,500,000 in two years, "an accretion, in the majority of cases, quite unrelated to respective increases in plant, property or earning power." He said further:

> "The Federal Reserve System, pursuing a well-conceived and far-sighted policy, rose to a position of world leadership. Yet, within the short span of a year it lost that leadership, owing to its failure promptly and effectively to reverse the engines at the critical moment. The rudder then passed into the hands of Stock Exchange operators, who have now for many months governed the flow of money, not only in the United States, but in the principal marts of the world.
>
> "History, which has a painful way of repeating itself, has taught mankind that speculative over-expansion invariably ends in overcontraction and distress. If a Stock Exchange debauch is quickly arrested by prompt and determined action, it is not too much to hope that a shrinkage of inflated stock prices may be brought about without seriously affecting the wider circle of general business. If

> orgies of unrestrained speculation are permitted to spread too far, however, the ultimate collapse is certain not only to affect the speculators themselves but also to bring about a general depression involving the entire country."

Mr. Morrow, seemingly, did not conceive it a part of his duty to utter public warning. In private, in conference with bankers and his former associates in J. P. Morgan and Company, he strongly counseled prudence in the application of brakes by the Federal Reserve Bank and the bankers themselves. On one occasion he predicted to a financier, at that time regarded as the Gibraltar of Wall Street, what would take place unless the gambling hysteria could be checked. Mr. Morrow, then Ambassador to Mexico, had returned to this country for a holiday. The banker besought Mr. Morrow's opinion. The ensuing conversation is given from memory as it was told the author by Mr. Morrow. His visitor asked him how the Wall Street scene looked from the vantage of Mexico City.

"You remind me of a crowd of drunken sailors," said the Ambassador. "You are on a gigantic spree, and unless you sober up promptly, you and the country are going to suffer painfully in 'the cold grey dawn of the morning after.' "

"Maybe you're right, Dwight," the visitor replied, "maybe we will have a rude awakening. But as long as money is going at nine per cent I'd rather be lending than borrowing."

At the time of this cynical observation, time money brought nine per cent, call money twenty per cent in Wall Street.

Another prophet abroad in the land drew only scorn

for his adverse warning. The cherubic John J. Raskob, one of the major bulls in the New Era and a lay economist who carried his belief in the social virtues of common stock ownership to the point of fanaticism, managed the campaign of Alfred E. Smith, Democrat, for the presidency in 1928. In the previous March, sailing for Europe, Mr. Raskob had added zest to the run-away market by remarking that General Motors, then at 187, should be selling at 225, or fifteen times its earnings. General Motors soared immediately to 200. The Stock Exchange experienced a 4,285,000-share day, setting a new record for magnitude of dealings. Presently, other presumably common-sense business leaders were saying that common stocks were worth twenty, even twenty-five times, earning power. Mr. Raskob, author of an article in a popular magazine exploiting the theory that we should all get rich out of common stock ownership—Americans living, no doubt, by taking in each other's dividends—indubitably acted as one of the pioneers of the new frontier of science.

But on October 5, 1929, noting widespread reports that he was extracting fresh millions from the market, he sounded a blue note in the symphony of national well-being. He announced his view that Stock Exchange prices had "so far outrun demonstrated values, earning power and dividend returns that a material readjustment is necessary." Furthermore, he bluntly attacked the prevailing view that corporations, although they were armed with the new science, could "increase their dividend payments sufficiently to make the yield on present security prices compare favorably with the high cost of money." Mr. Raskob's acid phrases generally were put down to a presentiment that his candidate

would not be able to prevail in November against the magic of Republican prosperity.

Had the Jeremiahs been ten times as numerous, twenty times as vocal and one hundred times as potent as they were in fact, it is doubtful if their phrases would have subdued the incalculable frenzy of a public gone jovially mad over easy money. The likes of those days were never approached in the most frenetic stock gambling fevers of the past. It was impossible, as anyone who lived through the New Era recalls, to escape the insinuations constantly emanating from Wall Street. Estimates of the number of pioneers, new style, who pressed from all parts of the country on Wall Street, ran as high as twenty millions. Perhaps three-quarters of all the families in the country were warmed by the fever. The upper middle classes, gauging them with respect to incomes, were infected by money hunger as by an epidemic. Wherever one happened to be, in a Manhattan speakeasy, on a Long Island golf links, at a meeting of the Peoria Elks, or at the Thursday Auction Bridge Club in Wheaton, Illinois, the talk of market winnings ran on endlessly, repetitiously. So and so had cleaned up $15,000 on Montgomery Ward. Jones was holding Radio for the long pull; he sold the old home place, added the legacy from Uncle Fred and put his savings, too, into Radio common. "The thing to do with Radio is to buy all you can carry outright and lock it up for ten years. At the end of that time you'll never need to worry again." So strong was the belief in the miracle-working power of radio, electricity, aerial transportation and divers technologies!

"As one walked up the aisle of the 5:27 local, or found one's seat in the trolley car, two out of three

newspapers that he saw were open to the page of stock market quotations. Branch offices of the big Wall Street houses blossomed in every city and in numerous suburban villages. In 1919 there had been five hundred such offices; by October, 1928, there were 1,192; and throughout most of 1929 they appeared in increasing numbers. . . . The rich man's chauffeur drove with his ears laid back to catch the news of an impending move in Bethlehem Steel; he held fifty shares himself on a twenty-point margin. The window-cleaner at the broker's office paused to watch the ticker, for he was thinking of converting his laboriously accumulated savings into a few shares of Simmons. Edwin Lefevre told of a broker's valet who had made nearly a quarter of a million in the market, of a trained nurse who cleaned up thirty thousand following the tips given her by grateful patients; and of a Wyoming cattleman, thirty miles from the nearest railroad, who bought or sold a thousand shares a day—getting his market returns by radio and telephoning his orders to the nearest large town to be transmitted to New York by telegram. An ex-actress in New York fitted up her Park Avenue apartment as an office and surrounded herself with charts, graphs and financial reports, playing the market by telephone on an increasing scale and with increasing abandon. . . . Thousands speculated—and won, too—without the slightest knowledge of the nature of the company upon whose fortunes they were relying, like the people who bought Seaboard Air Line under the impression that it was an aviation stock." [5]

The rich were growing richer, pyramiding profits, buying pretentious yachts, developing country places

[5] *Ibid.*

in mimicry of the relics of feudal aristocracy in Europe, erecting castles and manor houses outside every county seat across the continent. No one who experienced the New Era can forget the buoyancy of spirit that accompanied these gambling profits nor the concentration of a nation's interest in the great casino at Broad and Wall.

Unfortunately for them, vast numbers of the middle class, totally unfamiliar with the technic of market operations, and convinced by the rosy platitudes of their leaders that prosperity would flow forever from the cornucopia of science, held on to their common stock purchases until the end. The western money kings played for the long pull, and the unskilled speculators did likewise, for the most part. "It is easily established that the West controls the present market and that the orthodox market players of the East, meaning mainly conservative bears on the Stock Exchange and plenty of plungers too, have dropped millions of dollars in an ineffectual attempt to stop the tidal wave of stock buying. The difference has been that the Eastern market players, including most of the Stock Exchange members, have been playing the market by rote, following customs, precedents, rules of order and established theories. The Westerners have been playing by ear and they have gotten away with it. The cash profits that they have taken from the market have been tremendous. Their paper profits are even larger." [6]

So they came on and on, thousands of sheep for the shearing, dropping their businesses and other diversions, buying chips in the enormous game running in Wall Street. Fascinated by the symbolic manifestations of

[6] *The New York Times*, September 30, 1928.

the financial machine, a mechanism whose infinite complexity not one in 10,000 knew or cared about, the genus Americano who gambled in Wall Street counters was reminiscent of the elderly farmer who won the opening bet on his first visit to a race track.

"How long," he asked regretfully, "has this been going on?"

In March, 1928, the market sagged when the New York Federal Reserve Bank advanced the discount rate to six per cent, perhaps under the influence of Mr. Warburg's strictures, in an effort to stem the headlong ascent of prices. Wall Street bankers momentarily feared a panic as call money soared to 20 per cent. Charles Mitchell president of the National City Bank, soon neutralized the Reserve Bank's moderating action, however. He announced the offer of $20,000,000 to be loaned, $5,000,000 at 15, a similar sum at 16, etc. Call money fell away to the lower price and the hysteria was resumed. In September, when the Hatry scandal shook the London credit market, a wave of forced selling from abroad brought a substantial flurry. Numerous big operators cagily withdrew from the market. Roger Babson, the sage of Wellesley Hills, predicted a sixty to eighty point drop in an offhand address which provoked another tailspin, but Professor Irving Fisher, the seer of New Haven, on the same day deplored the idea of a crash and blandly predicted higher dividends. Professor Fisher at the same time said a few kind words for the investment trusts. The September decline was punctuated by several smart rallies and much of Wall Street dismissed it, in the language of Colonel Leonard P. Ayres, the Cleveland economist, "as a creeping bear market."

The inevitable collapse did not occur until late in October. From the 24th to the 29th, Wall Street again knew panic days, for the first time since 1907. On Thursday the 24th and Tuesday the 29th, cataracts of selling orders poured into the Stock Exchange. Three thousand miles of the wealthiest country on the sphere in the process of liquidating through that narrow funnel! European speculators were liquidating also. On the 24th, 12,000,000 shares, and many more, were traded in. On the 29th, 16,400,000 shares were noted on the ticker but the total transactions, as disclosed later by Mr. Richard Whitney, president of the Stock Exchange, actually reached more than 23,000,000 shares.

The resultant panic, by far the most swiftly demoralizing of any seen along Mr. Charles A. Beard's "new Appian way," produced no outward signs of turmoil. The crowds on Broad and Wall, Broadway and the tributary streets were no denser. There were no threatening mobs, no outward stigmata of the ruin that whipped across the tapes within the Stock Exchange. "Through all this trying period much anxious thought was given to that strange enigma—public psychology. A feeling seemed to be present that history was in the making, that never again in our generation would such sights be seen. The liquidation in the stock market was on so vast a scale as to parallel a war calamity. One felt that a curious impersonal catastrophe had occurred, and it was rather the hurry and speed of the thing than lack of courage which fostered excited acts and orders. Yet for the most part, people with cruel losses bore them with admirable calm." [7]

[7] "The Work of the Stock Exchange in the Panic of 1929," address delivered by Richard Whitney, President, New York Stock Exchange, in Boston on June 10, 1930.

So the latest frontier vanished. If society had only to reckon losses sustained by gamblers in the 1929 collapse and the subsequent downward trends in the stock market, it could easily forgive and forget. But the continuing and progressive disaster which befell the land—the country meanwhile being in 1932 no less productive, equipped as admirably as in 1929 with raw material, plants, inventive management, laboring skill and even more eager to consume the manifold products of field, mine and factory—requires an appraisal of the part that unscientific financing and stock market inflation played in it all. No one blames Wall Street merely because October 29, 1929, stands on the calendar as a date sharply marking off two periods—prosperity and optimism on the one hand, stagnation and gloom on the other. The blame almost universally assessed against Wall Street is not based on an accident of the calendar.

First, it may easily be shown that during the boom years too great a share of the national income was diverted into capital account. In the year 1929 alone $15,600,000,000 in new securities were listed on the Stock Exchange. During the four years of the New Era, 1926 to 1929 inclusive, more than thirty-four billion dollars—virtually one-half the national income in the former year—in new stock and bond issues were offered the public through the Stock Exchange alone. The four years just preceding saw securities worth only $14,300,000,000 listed. While the Stock Exchange withdrew billions of dollars from the profit and savings account of the well-off, putting the Stock Exchange in competition with the market for consumers' goods, Wall Street bankers, inspired by the

steady pressure of surplus investment money, devised foreign securities, government and private, to the total of $10,000,000,000 during the New Jerusalem. In one way or another, the New York Stock Exchange, the New York Curb Exchange, and the tributary markets in Boston, Baltimore, Philadelphia, Pittsburgh, Chicago, Cincinnati, Detroit, St. Louis, San Francisco, and lesser cities, the real estate mortgage houses and the international bankers withdrew into capital account within ten years something approximating a full year's income for the whole people. No such displacement of money from earnings and savings into capital had ever taken place before. It was colossal and pointed surely in only one direction.

Secondly, too large a proportion of this transfer was negotiated by means of credit. Again, and more calamitously than ever, the masters of Wall Street totally misunderstood the nature, scope and limitations of credit. They inflated instruments of debt as if there was no end to the capacity of productive industry to pay interest and principal. As a result, the country is afflicted with a burden of debt which grows heavier as time passes. "In 1929 the estimated debt of the United States . . . was about 194 billions. According to the estimate of the National Industrial Conference Board the national wealth in 1928 was 353 billions, or 252 billions in 1913 dollars. By the end of 1931, our national wealth was doubtless near 200 billions in prewar dollars. The money lenders, therefore, will practically own the country if prices continue to fall and debts are not wiped out by cancellation. It may be remarked in this connection that Sir Ernest Benn esti-

mated at the opening of 1931 that Great Britain's total debt greatly exceeded her national wealth." [8]

Industry and trade, bolstered by the device of installment buying which, in 1927, put seven billions in motor cars, radios, and similar luxuries into the hands of the relatively poor, could not continue to withstand this malappropriation of the country's income. When installment buying had brought about saturation of the new low income levels opened to the luxury trade, which was about in the winter of 1928-'29, industry paused and by the beginning of the second quarter of 1929 showed signs of actual decline. The general indices began a descent—which has not been halted as this is written three years later—in May, 1929. Credit, attracted by the high money rate in Wall Street, had been wrenched away from the small manufacturer and merchant in every crossroads metropolis. Out-of-town banks mercilessly called loans in order to rush their funds to New York where they would earn ten, fifteen, twenty per cent in the call money market instead of a nominal six at home. Innumerable businesses were hauled up short by the effect of this competition a year before the panic struck Wall Street.

And underneath the brocaded vestment of prosperity that seemingly decked American life were gaping holes. The farmer was in a bad way; had been since 1921. Roughly one-half of the population living on the farms, plantations and ranches of the land, and economically dependent on them, had been all but withdrawn from consumption. We need only consider a few figures to see the niggardly plight of the farmer, the traditional mainstay of prosperity. Farm property,

[8] "Is Capitalism Doomed?" by Lawrence Dennis. New York.

which in 1920 had been valued at $79,235,000,000, had declined by 1928 to $58,645,000,000. The average price per acre of farm land fell from $81.52 in 1920 to $48.42 in 1930. Whereas in 1920 the price of farm products averaged on a level with the price paid by farmers for the goods they bought, by 1929 the index of farm prices stood at 138 as against 155 for the commodities which the farmer must purchase. Certain industries likewise were ailing, such as coal mining and textile manufacturing, and the owners, manufacturers and workers in those industries did not fall within the blessings of the national heyday.

". . . There were during the years from 1921 to 1929 signs that all was not well. There was evidence that under the conditions of security and leisure current during that period, the home demand for more and more things produced by mass methods was slackening or being overtaken by improvements in technology and management. Technological and management unemployment, while not controlling, became a real factor. Men over fifty had increasing difficulty in securing work. The technologically unemployed became recognized as a persistent group in our social economy. Industries, like bituminous coal and textiles, were continually depressed. . . . While production costs decreased, costs involved in marketing began to increase dangerously. We had for the first time a smaller percentage of our total population in industry during that decade than in the one preceding it."[9] In 1921 we exported 369,313,000 bushels of wheat; in 1922, 282,566,000 bushels. By 1929 the wheat export had fallen away to 163,687,000 bushels. The farmer could not

[9] "Business Adrift" by Wallace Brett Donham. New York.

contribute as he had in 1921 to a restoration of industry.

Moreover, an examination of the statistics of wage earning showed unhealthy symptoms under the bright flush of the New Era. Real wages were virtually stationary from 1923 onward while technological unemployment crept up year by year. Dividends on the other hand bounded upward from 1923 to 1927 increasing to $6,423,000,000 in the latter year from $4,169,000,000 in the former year.

Still more disturbing, an analysis of the national income from 1919 to 1927 showed a progressive increase in the percentage of incomes above $5,000 a year. In 1927, one per cent of the people owned sixty per cent of the wealth, two per cent of the employed obtained twenty-three per cent of the national income and 516,000 stockholders whose incomes ranged above $5,000 took eighty-seven per cent of all dividends. Figures compiled by the National Bureau of Economic Research and checked against the Bureau of Internal Revenue show that, whereas in 1923 incomes below $5,000 accounted for 84.8 per cent of the national total, by 1927 the ninety-eight per cent of wage earners who received less than that sum were getting only 76.6 per cent of the total pay.

We may assume, as a generalization, that the New Era began in Wall Street at about the point where the upthrust of the New Jerusalem industrial prosperity left off, and fed for four vainglorious years on accumulated profits and the automatic savings of the very rich. "American prosperity reached a new peak in 1926, after which the downward trend was definite. But in 1926

stock market speculation started on an unparalleled spree. In the midst of the minor depression of 1927, with corporate earnings declining, stock prices shot skyward. Speculators assumed that improved technologic efficiency and larger corporate earnings would continue indefinitely, and bought stocks at enormously inflated prices in the 'boom' confident prices would go still higher. Untrue to its theoretic function, the stock market discounted the past instead of the future. Speculative prosperity was identified with national prosperity, encouraged by Presidents Coolidge and Hoover. Sober economists abandoned theory and experience, insisting that in the 'new economic era' the most extravagant prices for stocks were justified. . . . Responsible bankers encouraged the speculative mania, which yielded exceedingly large profits; the profits of financial corporations in 1927 increased 73 per cent over 1923, while the profits of all other corporations declined 15 per cent. Sustained large-scale speculation expresses and aggravates the upset in the balance among the different economic factors. The balance was upset still more by masses of new securities issued by banking houses. Investment bankers manufactured new securities with the abundance of bankrupt governments manufacturing paper money. These great masses of new securities were larger than the savings margin of the American investing public, and were partly indigestible and undigestible; but still more important, they represented a diversion of income into superfluous investment, increasing the immediate and potential output of goods and services beyond available purchasing power. Indisputably, too much of the national in-

come went into investment (and speculation) and not enough into consumption."[10]

Balked of green horizons, the restless American looked upward in 1926 for his latest, perhaps his last, frontier. And when occupied, the vertical frontier opened by technology proved as plaguey, as full of metaphorical pests, bears, bulls and other varmints, as any promised land that lay out before his ancestors in the valleys of the West.

Perhaps the frontier of boundless opportunity, which historically magnetized the Yankee, definitely and forever vanished on October 29, 1929.

[10] "Bigger and Better Panics" by Lewis Corey in "Behold America!" New York.

XV—SHORT-SELLERS' HOLIDAY

MR. HOOVER graciously acknowledged an ugly fact by tendering, to Germany and Europe, a one-year moratorium on wartime debts and reparations in July, 1931. Whereupon, the stock market, which had been bumping downward energetically from a half-hearted "little bull" movement early in the year, halted, rallied momentarily, and then gave way dismally. Mr. Hoover, whose misfortune, as some one has said, is to preside as the first "business President" over a republic whose business is more cruelly wounded than in any previous time, resented the decline. He attributed the reaction to malice, or a threatening gesture, on the part of high finance, which, by a convention widely subscribed to, is believed to control Stock Exchange prices. Taking the cue from the White House, themselves irritated by what seemed a persistent, perverse "destruction of equity values," numerous articulate members of the business classes at about the same time began to suspect that Stock Exchange operators, supplied with weapons by Wall Street, were driving the country more deeply into perdition day by day.

Promptly, the alarmed reformists isolated the malign influence. It was, they determined, the bears—sellers for a decline, in Wall Street's limited totem language—who were wreaking doom. The bear, a trader for profit whose operations were hoary with stock market usage, became by application the country's personal devil. Ob-

viously, the next step was to organize a crusade against bears and the device used by them, short-selling; implementing the crusade with appropriate evangelical zeal and rabble-raising appeals to save a sore-distressed land from the pit.

Borrowing the brisk terminology of Chicago, the bear, suspect and proscribed, as any medieval usurer, in the wake of every stock market cataclysm since 1610 A.D., became Public Enemy Number One! Wall Street, with customary bluntness, retorted that it was merely an "economic witch hunt."

And so, the rafter-shaking conflict over the wicked bear was joined as the country simultaneously entered the second and more aggravated stage of the depression 1929 et seq., and the period we shall dub the Great Disillusionment. In December, 1930, the stock market fell away to new and frightening lows. In June, 1931, the insolvency of the great Credit Anstalt in Vienna recoiled upon the world's financial structure, shaking it soundly, and prompting the Hoover moratorium. At home, business, industry, employment showed no sign of recovery. But it was only in midsummer of 1931 that the people commenced to realize that the New Era indeed had been buried beneath the stock market avalanche of October, 1929; and that the bright splendors of the New Jerusalem truly had been extinguished. Nine months later disillusion was complete. The gigantic industrial, commercial and credit machine of the United States stood at dead center in the warm Springtime of 1932.

There were cogent and manifest reasons for the lag between disaster and disillusionment. No right-thinking American, no "rugged individualist," wished to

believe during 1930 and the early part of 1931 what his good sense told him, namely, that he had been roughly evicted from the tinselled glories of the hardboiled New Jerusalem into a bleak and miserable limbo where cold facts obliterated old, fanciful economic standards, and wherein, conceivably, there might not be a chicken for every pot and two cars quartered in each suburban garage. No American, thoroughly indoctrinated in the New Era gospel, dared admit, indeed, until the evidence fairly overwhelmed him that the country might be in for prolonged hard times similar to those which plagued it during the dim and unenlightened 1870's and 1890's. General business depressions, he had been assured, were as extinct as high-wheeled bikes and bloomer girls. The savants of economics had told him that the business cycle, a metaphysical concept enunciated a century before the birth of modern capitalism, and hence subject to sharp analysis, had been flattened out.

For the right-thinker to believe otherwise while the New Era prophets still were endeavoring to restore prosperity by soothsayings would have been heresy. Repeatedly, the business community—gulled during the New Era into a faith, shared, no doubt, by its apostles, that technology, mergers, foreign lending, high wages and the wise concentration of national income in Wall Street, had repealed what they called economic "laws"—allowed itself to be persuaded throughout 1930 and until midway of 1931 that the country had "turned the corner." At no time since the ascendancy of business in modern times, have its leaders demonstrated so convincingly their romantic tradition and nature. The myths, the fictions, the moonshine uttered by responsible statesmen, great bankers and lordly industrialists

during the aftermath of the New Era if displayed in parallel columns alongside the month-by-month statistical record would be bound to convince a detached, alien observer that the affairs of the American people were in the hands of Robin Goodfellows masquerading as hard-headed business men.

Devout in the faith, the middling business man trusted throughout 1930 and half of 1931 in the promised return of confidence, earnings and good feeling to rectify the stock market's stubborn downward bent.

It was not until the high priests of the New Era turned on the Stock Exchange—an institution which accepted their unrestrained blessings from 1926 to 1929 with reservations—that the middling business man, stewing over market losses, himself took fright and joined in the search for artificial means of arresting securities' levels. He, too, joined in beating the bushes for big bears who, reputedly, were thrashing about disastrously in the profitable thickets of Wall Street—in the same fashion as the big bulls had gone antic in the New Era inflation. The monstrous bull movement, indubitably, had an influential part in contriving the subsequent ruin; we can not so readily fix the share the short-selling bears may be laden with.

The Great Disillusionment it may be observed, produced diverse reactions. A bloc of the younger intellectuals deserted "New Republic" liberalism and with Theodore Dreiser, a novelist who flourished during the New Jerusalem, joyously departed on a spiritual pilgrimage to Soviet Russia; statesmen and industrialists at last abstained (except for certain incorrigibles in the White House and elsewhere) from a rather notoriously foolish effort to conjure back prosperity; certain "rug-

ged individualists" hoarded savings, others vended apples at Broadway and Wall; still others, among the presumably ten million wage earners totally unemployed, accepted the prevailing order gratefully as they existed on doles which provided, during the Winter of 1931-32 in New York, five dollars a week to lodge a family, two dollars and forty cents to feed a man, two dollars and twenty cents for a woman, a dollar eighty for a youth, a dollar sixty to sustain an adolescent girl, a dollar twenty for a babe—or fourteen dollars and twenty cents in all to keep the American standard of living in support of a family of five. Investors and speculators for the rise, were not, on the other hand, so certain that the blessings of civilization as organized in the fourth decade of the twentieth century in the United States of America merited their approval. In fact, these powerful classes voted a lack of confidence in the current system by conspicuously staying away from Wall Street. Thereupon, the Stock Exchange became more decidedly a seller's market wherein the bear held sway—as during the piping days of 1926-1929 the bull had ruled. These circumstances intensified the campaign against short-selling. Benevolently bolstered from the White House, the crusade drew the help of Senators from the grain and cotton states, whose blood pressure customarily heightens at mention of Wall Street and its totems. It became the fashion to ascribe all our economic ills to short-selling. The bear became odious, a sinful horrendous creature, fit to frighten the children with.

In short, through a nominal mutation, the Wall Street bear was translated into another mammalian family, becoming a scapegoat.

The Wall Street wilderness undeniably had shel-

tered many a bear since the day in late October, 1929, when an Era and a frontier came to a calamitous end. Indeed, before the drastic break of October 29, Wall Street observers detected the marks of bear's paws. On October 19, a New York city financial writer reported: "Reactionary forces took control of the stock market yesterday and, with a devastating sweep, reduced the value of listed securities to the lowest levels reached on the current decline. In the two hours to which trading was limited on the New York Stock Exchange active issues passed through one of the widest breaks in history. Final quotations revealed net losses ranging from 5 to 20 points and the aggregate depreciation in open market values was estimated at $1,000,000,000 or more. One of the stories which gained wide circulation wherever stock market tickers clicked yesterday was that Jesse L. Livermore, formerly one of the country's biggest speculators, is the leader of the bear clique, that has been hammering away at the market for weeks, and that the particular weakness which developed in high-priced and pivotal stocks was to be attributed, in part at least, to his activities." [1]

Contrary to a belief which has grown up unaccountably, the bear, or short, interests—always hard to isolate because of the Stock Exchange's protective hospitality to short-sellers—figured noticeably in the Autumn collapse of that year. No one suggests that the bears toppled the market from its New Era pinnacle. But the ground trampled by multitudinous pools of frightened bulls took the imprint also of many and many a delighted bear. It would have been an injudicious bear,

[1] *New York Times:* October 19, 1929.

indeed, who refrained from extracting the vast profits incident to world-wide liquidation.

In mid-December, 1929, a New York financial journalist wrote that "the Wall Street woods are full of bears."

Increasingly, bearish gamblers multiplied until, if we may believe the private assurances of responsible Wall Street men—likely to be nearer the actual facts than the formal apologies of Stock Exchange presidents —certain powerful pools did amass profits running into millions from short-selling operations in the greatest bear market of all time. Discounting gossip, which put the winnings of this pool at one hundred and eighty million dollars, of that syndicate at one hundred and fifty million dollars, and of a third group at eighty million dollars, the average non-Wall Street man may well believe that professional operators who preferably take the short side have not been doing badly in a market which for two and one-half years suited them as closely as if they themselves had designed it. It would be naïve to suppose, in spite of the solemn rhetoric of Stock Exchange spokesmen, that the cleverest speculators operating in any securities market in the world had suddenly lost their cunning or their courage in the face of unexampled opportunity. This is not intended to discount the painstaking denials of bear-raiding uttered by Mr. Richard Whitney, president of the New York Stock Exchange, before the Senate Banking Committee, in April, 1932, or in earlier testimony or addresses. In Mr. Whitney's definition lies a distinction between a good bear, who sells because his judgment assures him prices will go lower, and the wicked bear, who trades with the intention of forcing

them lower. The intention counts with Mr. Whitney; the effect may be the same. Nor is it suggested, even remotely, that the merciless pounding equity prices have been subjected to during the Great Disillusionment is primarily due to short sales. The fact that the Stock Exchange has harbored predominantly a sellers' market since the collapse of the New Era is due to divers factors, some domestic, some foreign, some factual, some psychological, several of which, without doubt, have been more influential than the expert cupidity of bears. Nor is there any means of demonstrating that the bear interests expanded as time went on, a development which might explain the increasing concern of the investing and general business community over the dire social effects of short-selling. The evidence would seem to indicate the reverse, that the Exchange restrictions progressively have minimized bear trading.

The bears, we may take it, traded in sizable volume as the results of the 1929 market convulsion made it profitable. Shrewder judges of the intermediate, if not the secular (long time) swing, they sold, we may assume, in despite of the optimistic outgivings from the White House down. When Mr. Mellon, on January 1, 1930, foresaw "a revival of activity in the Spring," the bears disagreed. But the disciplined, trustful common stock investor of the New Era accepted at face value Mr. Mellon's assurances, along with cheery forecasts from Mr Hoover, Secretary of Commerce Robert P. Lamont, Dr. Julius Klein, administration economist, and other magnificoes of state and trade. Hence the first quarter of 1930 witnessed a "little bull" market which drove the bears to cover and restored stock prices

to this degree: Whereas the total of listed values on the big board had been $87,000,000,000 in September, 1929, falling off $30,000,000,000 in the break, they rebounded to the aggregate of $75,000,000,000 in the succeeding March.

But the tendency continued downward and in six determined selling waves between the last quarter of 1929 and the second quarter of 1932, the capital account summarized in the Stock Exchange lists receded from the $87,000,000,000 peak noted above to something over $20,000,000,000—the latter sum roughly approximating the listed values during 1925 when the total of shares was less by several hundred millions than 1932. The annals of modern capitalism present no counterpart to that wholesale securities dissipation. The prospect indeed was paralyzing to confidence.

	High Price, Sept. 3, 1929	*Low Price, Nov. 13, 1929*	*Low Price, April 1, 1932*
American Can	181⅞	86	60⅛
American Telephone and Telegraph	304	197¼	109⅞
Anaconda Copper	131½	70	5⅞
Electric Bond & Share.	186¾	50¼	15½
General Electric	396¼	168⅛	17⅛
General Motors	72¾	36	15
Montgomery Ward ...	137⅞	49¼	7½
New York Central	256⅜	160	25
Radio	101	28	6
Union Carbide and Carbon	137⅞	59	27¼
United States Steel ...	261¾	150	38⅞
Westinghouse E. & M..	289⅞	102⅝	23½
Woolworth	100⅜	52¼	39⅜

No wonder, then, that the "rugged individualist," wedded to the doctrines of capitalistic enterprise, at-

tached to the theory of a speculative market, should cast about among the factors in the decline—rather than those which in the New Era had exaggerated the capital structure of the country out of all bound—for the personal devil who wrought so much evil. Small wonder, facing so rare a table of disaster, that he should demand the abolition or rigid curtailment of short-selling, legislative inquiries and punitive taxes. The table shows in vivid contrast the shrinkage in "blue chip" stocks from the 1929 peak through the 1929 low to the Spring of 1932.

What did seem strange was that persons able to collect minute information on the subject should continue to hold bears altogether responsible for the country's wretched plight. In whatever degree the bears, large, middle-sized and small, "wrecked the market"—and we may assume, from sensible deduction, that the degree was ponderable—sellers for the decline were by early 1932 targets for a variety of missiles ranging from heavy mortars in the White House to miscellaneous popguns. The President viewed with astonishment the further, implacable reduction of prices after he yielded to Wall Street in the matter of the Glass-Steagall and Reconstruction Finance Corporation credits.

If he had resented the market's reception to his moratorium, stronger terms express, if we may accept the accounts of Washington correspondents, his reaction to the new ebb tide that set in during February, 1932. The President, it was said, blazed.

Ignoring the dead thud of declining business indices throughout the winter, Mr. Hoover determined finally that the market surely must be acting under pressure of

pernicious influences hostile to him and his Administration. The bears, so the reasoning went, were discrediting every move he made toward recovery. Hence, on February 17, Mr. Hoover took a firm line. He warned the Stock Exchange to behave, take a sunny attitude—such a one as suited Mr. Coolidge to a T—or be spanked. "President Hoover disclosed today that he had invoked the influence of his office to halt bear raids in the stock market. With other members of his Administration, he notified the managers of the New York Stock Exchange that they should take adequate measures to protect investors from artificial depression of the prices for securities for speculative profit. While the President did not announce what pressure he had brought to bear on the Stock Exchange officials, it was understood he gave them to understand that they must adopt rules of their own to curb manipulation of the market by short-sellers, failing which the Government would be compelled to put bear activities under stern Federal regulation."[2] Mr. Hoover meant business, as may be inferred from further word that he had meditated closing the Stock Exchange altogether to "protect banks and insurance companies."

Mr. Hoover proceeded further. At his behest, the Senate Committee on Banking and Currency voted an inquiry into short-selling. The bears, it was said, were to be named so the public might identify the enemies of the nation—Public Enemy Number One, Two, Three, etc. Yet when a rational minority on the investigating sub-committee obtained a resolution broadening the inquiry's field to bull operations during the New Era, the White House lost interest, the in-

[2] *New York Herald-Tribune,* February 18, 1932.

dustry of the probers diminished; and it was only when someone, asserted to be a journalistic friend of the President, telegraphed a warning that a "billion-dollar bear pool" had formed in Wall Street, determined to make Saturday, April 9, "the blackest stock market day in the world's history," that the sub-committee returned to life. Mr. Whitney promptly was summoned to Washington and instructed to supply detailed figures on short-selling during March and April. His statement showed that the short interest had dwindled between April 1 and April 7 by 429,503 shares, standing at 2,849,985 shares on the latter day. During the week in question, the market broke through savagely to new lows, United States Steel falling away to 33.

Curiously, it was disclosed that no one in official life in Washington seemingly had made computations as to the relative liquidation of stock market and commodity prices except Senator Smith Wildman Brookhart of Iowa, a granger statesman unfriendly to Wall Street. His chart, sneered at by his colleagues and, in general, by the press, showed the bitter truth, i.e., that stock market prices still were "out of line" with respect to commodity values.

The Iowan's figures were not palatable to jaded optimists of the New Era, who insisted upon loading the whole cargo of the country's economic sins—New Era inflation, a dubious tariff, high government costs, as well as the self-defeating elements in capitalistic enterprise itself—upon the head of the scapegoat short-seller and shunting him off into the wilderness.

Amidst the anti-bear crusade, the British flight from gold, in September, 1931, induced the governors of the New York Stock Exchange, as an emergency measure,

to abolish short-selling. This measure overjoyed the reformists, but the Stock Exchange doggedly resumed and justified, by inadequate reasoning, the short sale after two days. On September 30, the French Bourse adopted stringent restriction on short-selling as a means of tempering the panic which London's action had produced there. The Bourse required either the deposit of stocks sold, or a forty per cent margin plus immediate delivery of one-quarter of the sale, or proof of possession. Organized American business joined the campaign formally in October, the United States Chamber of Commerce recommending that short-sellers be required to post forty per cent of the sale value in cash, submitting evidences of the possession of the remainder. On October 31, the American Bankers Association, meeting in Atlantic City, warned the Stock Exchange that unrestrained bear maraudings might be punished by the people: "Anyone who take advantage of an hour of public trial unduly to depress quoted values out of line with intrinsic worth, from motives of selfish profit, is deserving of public censure that is liable to crystallize into agitation for undesirable restrictive legislation." [3]

Nothing here in condemnation of the devastatingly successful efforts of big bulls during the New Era to inflate "quoted values out of line with intrinsic worth, from motives of selfish profit." As Dr. Max Winkler, economist, writing in an appendix of Mr. J. Edward Meeker's "Short Selling," points out: ". . . operators for the rise are personæ gratæ with legislators. They are regarded as patriots, while speculators for the decline are branded as traitors and enemies of the people.

[3] *New York World-Telegram,* November 1, 1931.

Little does one realize that speculation for the decline is the necessary and inevitable corollary to speculation for the rise. If you suppress the one, the other automatically is doomed. Speculation is engaged in solely for profit."

Hard words fell thick and fast about the bear. Former Ambassador James W. Gerard charged earlier that short-selling, as plain gambling, violated the New York State Constitution. The "Financial World" advanced editorially to the attack on December 23, 1931, as follows: "The principal reason why short-selling is a menace in a critical emergency, such as a panic, is that it attacks pivotal issues, with no other design in mind but to arouse widespread fears among the people to get them to unload and thereby open wide the sluice-gates of liquidation under which bear operators can cover their commitments at a profit." Harold G. Aron, New York City banker, described short-selling at a Congressional inquiry as gambling with "loaded dice."

While Senator Arthur Capper, (Kans. Rep.) pressed his bill to tax short-selling profits twenty-five per cent, a tidal wave of opinion credited bear operations with ominous social consequences. Mr. William Trufant Foster, economist, who developed an interesting panacea for the depression in 1931, ascribed to bears a large share of the country's prostration. Mr. Foster suggested at a jewelers' convention in 1931 that if "people, during the next two weeks, were to spend $5 more on the average than they are spending now, the business depression would be over." Mr. Foster, writing in the "Atlantic Monthly" for February, 1932, made a closely-reasoned reply to Mr. Whitney's defense of short-sellers. He said: "There is every reason to believe that short-

selling has been a substantial cause—not the chief cause, by any means, but a substantial cause—of the depth and duration of the present business depression." Mr. J. George Frederick, who writes on business topics, declared in his book, "The Real Truth About Short-Selling," as follows: "The resulting short-selling shambles has been as uncivilized and unequal as Custer's last stand against the Indians. In addition to this, it has been a gigantic decimater of national wealth and a paralyzer of economic activity; a fatal drag upon recovery." Mr. Frederick upholds the theory of a speculative stock market with the reservation that in times of depression practices otherwise valid should be eliminated, in the social interest. He sees, so far as his book discloses, no evil in an excessive bull market but national disaster in the corollarily excessive bear market.

It remained for Dr. Harry Elmer Barnes, historian and sociologist, to put into graphic journalese a popular view of the detriments of short-selling. Dr. Barnes wrote: "Not only is this bearish short-selling ruinous to the legitimate owners of the securities thus artificially and unfairly depressed. It is bad for the psychology of the country. It is difficult to exaggerate the degree to which the pessimistic and fatalistic psychology of the country today has been due to the shrinkage of stock values. Not all of this shrinkage has been caused by the short-selling bears. But much of the decline in the market price of securities in the last year and a half has certainly been due to the bears and their short-selling devices. . . . When bearish efforts have worked their worst effects and the market has been sent down to the lowest possible levels the big bears usually go

bullish and pick up another vast profit on the rise of security prices."[4]

Dr. Barnes undoubtedly spoke for an overwhelmingly large section of the business community. His argument ostensibly is sound. No doubt business men, many of whom learned expertly to read the stock ticker for the first time during the New Era and who have come to rely upon Stock Exchange prices for comfort and to be driven by them to despair, as the aborigine won solace or took fright from such augurs as bird entrails, have been put into a funk by the ever-downward tendency of securities quotations. Europe, too, more sensitive to the New York Stock Exchange since the War, is disposed to blame on the Exchange and its practices a psychological influence of the same fearful sort that keeps the American trading class awake nights and has added alarmingly to the suicide rates. The late Ivar Kreuger, Swedish promoter, who ran a box of matches into international business and banking schemes of incomprehensible magnitude before he took his own life in the face of bankruptcy in 1932, complained in an interview with Isaac F. Marcosson, published after the suicide in the "Saturday Evening Post," that the New York Stock Exchange's glacier-like devaluation had affected Europe's nerves.

Virtually all the critics of short-selling, whether they denounce it for working personal ruin, injuring corporations or undercutting public confidence in the best of all possible economic systems, believe without skepticism in the principle of a free, speculative market as a means of financing business. The seller for a decline happens to be the agent they reprehend. The buyer

[4] *New York World-Telegram,* March 1, 1932.

for a rise has their benediction, as he had, during the preposterous New Era the best wishes of two Presidents of the United States and the greatest Secretary of the Treasury since Hamilton.

What is the true inwardness of this conflict: both on the side of exchange economics and ethics, and in the larger sphere of social consequences? Are bears indeed camp-followers who prey upon the victims of an economic cataclysm? Or do they serve a useful purpose in the market place, "sitting on bulges" at the top and "cushioning" precipitate declines—keeping the market at all times wide and free? The answers do not spring crystal clear.

No one except a president of the Stock Exchange, in the rôle which tradition assigns him of "front" or apologist for Exchange practices, can doubt that the bear interest has raided the market during the Great Disillusionment. Were their conduct something novel, did it not approximate the profitable measures taken by bulls during the antecedent and no less disproportionate rise, 1926-'29; did the bears not have the sanction of long-time precedent as licit factors in a speculative market they might be branded with justice as "ghouls" who were taking ugly advantage of a stricken market. The market has been pounded unmercifully. No one doubts that. Bear operators and floor traders, whose operations in-and-out of the market account for perhaps one third of all dealings, have sold for the fall without doubt at every opportunity during the long decline. How much of the liquidation is due to the bears, how much to the intrinsic weakness of the country's corporate structure after two and a half years of falling, or absent, profits? How much of the market's ailing con-

dition is due to the speculative excesses of the New Era, which led to overcapitalization, split shares, new common stock issues, etc.? Where would short-sellers be if business indices of a sudden moved concertedly upward?

Stock Exchange prices on April 2 approached the low levels of the 1921 crisis. But an analysis of each capital structure on the list would be required to discover how the addition of shares during the New Era rearranged values. The shares in many a "blue chip" represent considerably less of an equity than shares quoted in 1921. On earnings, many a first-rate security sold in early April of 1932 far above value. On liquidating value of plant reserves, etc., figures are unsatisfactory. On future prospects, the future which was discounted throughout eternity in September, 1929, who can tell?

It is no particularly grateful task to seem to be supporting the orthodoxy of Mr. Whitney. His staunch defense of short-selling, a profitable practice to the brokers and one for which he threatened to sacrifice his dignified position, is a labored apology based on questionable theory where it does not cite figures interpreted for their ends by enemies of short-selling equally as plausibly as by himself. The theory that short-selling modifies the recklessness of a bull market and sustains a crumbling list is one of those imaginative concepts with scarcely anything whatever in fact to support it. Mr. Whitney himself admits that the bears were absent from the market at the apotheosis of the New Era, rushing in only when the incredible price structure showed obvious signs of weakening. Nor did the bears operate to support the market during the disheartening

downward sweeps in the last quarter of 1930 and from December, 1931, onward into the Spring of 1932.

The theory that bears stabilize prices is as hollow as the fable, in 1928 and 1929, that common stocks were worth twenty times earnings. Its solemn and repetitious utterance by "hard-headed" business men merely further testifies to the inherent romanticism of the genus. "According to fact, short-sellers on the New York Stock Exchange, over the swings of a business cycle, do precisely the opposite; and that is precisely what we should expect of them. They are not engaged in the altruistic mission of stabilizing prices; they are engaged in the acquisitive business of making money out of declining prices. The faster prices decline, the greater the chance of making money by selling short. The darker the outlook for business, the brighter the outlook for short-sellers. The more harm they can do by their selling, the greater is the incentive to increase their selling. The more fears they can create, the more money they can make." [5]

What further arguments have been submitted by the Stock Exchange to justify short-selling, i.e., the sale of stock you do not possess, but borrow, in the hope that its price will slump sufficiently for you to make a profit?

Mr. Meeker, economist for the New York Stock Exchange, presents the classic, textbook view in his book, "Short Selling." Apart from the theoretical virtue of stabilizing prices and the purely technical reasons —the enabling of security owners at a distance to sell without immediate physical delivery of shares, and the

[5] "Selling the United States Short" by William Trufant Foster, *Atlantic Monthly,* February, 1932.

"hedging" advantages for odd lot brokers (trading in less than 100-share commitments)—for unrestricted short-selling, Mr. Meeker postulates only that regulation would "in practice prove ineffectual" and that "there is no effective substitute." Any broker's clerk in Wall Street could inform Mr. Meeker that the Exchange itself, final authority in its own mechanics, could arrange easy methods to enable absent owners to sell without immediate delivery and to furnish the "hedges" for odd lot brokers, a half dozen of the most prosperous houses in the Street.

The most persuasive dialectic in Mr. Meeker's battery is the appeal to antiquity and the difficulty which has seemingly marked all efforts to suppress short-selling.

Short-sellers have plied their pessimistic trade from the beginning of markets. Nor have they altered their methods. If the short-sellers, scrabbling for profits in the odorous 'Change Alley, London, in good Queen Anne's time, circulated false rumors; expansive gentlemen, good hosts, sportively-inclined, well-mannered and kind to the poor, are suspected of spreading tales of community and corporate doom in Wall Street in the year 1932. A parcel of stock-jobbers in Anne's time invented a tall story that the Pretender had landed, organized an army and defeated a loyal force in the north of England. The stocks fell away in a crowded hour. Two days later, a coach bearing a heavily muffled gentleman and companions was reported to be headed for a North Sea port, the horses under the lash, the passenger the fleeing Stuart. It, too, was a "plant." Prices rallied to their former levels and the ingenious gentry who managed

the hoaxes and the "killings" winked across their mugs in Jonathan's Coffee House.

In Walls Street speakeasies, decorated in the silvery angular modern mode, where a Scotch and soda retails for a dollar, stories of less elaborately-contrived manipulations pass privately. Perhaps the most telling argument against bear trading lies in the inducements offered, once a trader is short of a stock, to rig the market and the public attitude by spreading disparaging stories. However, the bulls are no less guilty of such practices. In the same generation which saw shrewd London brokers concocting a raid by the Pretender, bulls supporting the runaway market in South Sea shares caused it to be published that the English crown intended to trade the unproductive Gibraltar and Port Mahon for Peru where, as everyone knew, the very streets were paved with gold. A shareholder in the South Seas enterprise would benefit by the deal, inasmuch as his shares underlay the national debt and profited by any increase in the revenues.

Mr. Meeker reviews the efforts of European governments to minimize or eliminate short-selling. First, the Dutch, in 1610, forbade short-selling, after shares in the East India Company had been driven to ruinous levels on the Amsterdam Boerse. "Bear attacks," directors of the Company asserted in their petition, "which generally assume the form of short-selling, have caused, and continue to cause, immeasurable damage to innocent stockholders, among whom one will find many widows and orphans." The Company obtained a law requiring a sale of stock immediately to be noted on the Company register, thus forbidding the lending of stock by bull to bear. The Boerse governors pleaded in reply

that the recession in East India shares sprang from "unsatisfactory business conditions"—much as Mr. Whitney, in addresses at Hartford and Syracuse, laid the steady decline in Stock Exchange prices to the critical state of the country's commerce.

"The important position held by the Netherlands in the realm of commerce," the reply of the Boerse went on to say, "is attributable to the system of complete freedom of trade. One may and actually does dispose of fish ere they are caught, and agrees to supply corn ere raised. How much more logical it is to permit similar freedom of action in regard to stocks, which can always be bought and which are always obtainable." Later, taxes were laid on short-sale profits. Still later all restrictions were eliminated.

Neither practice, criticism, nor justification have undergone much change in more than three centuries.

In 1733, Sir John Barnard, the "great City Commoner," a noted merchant of the time in London's financial district—known then as now as "the City"—introduced a bill under the title: "An act to prevent the infamous practice of stock-jobbing." Short-sales were held void, the seller being required to own shares at the time of dealing. Court decisions whittled away its effectiveness (the bill forbade puts and calls and other practices) and it became a dead letter almost at once, not being repealed, however, until 1860. Sir John Barnard's act was the outcome of the wholesale destitution brought about by the South Seas Bubble. After the panic invoked by the failure of Overend, Gurney & Company, a powerful discount house, in 1866, wherein several important banks failed, the British Government adopted the so-called Leeman's act forbidding short-

sales in bank stock. The Leeman's act still stands on the British law books, but Mr. Meeker notes that "it is regularly disregarded."

Successive French governments, from the collapse of Law's Mississippi Bubble onward, attempted, with little success, to regulate short sales and speculative markets. Napoleon considered short-sellers enemies of the State. His penal code punished a citizen who sold public securities short with one month to one year in prison and a fine of 500 to 10,000 francs, depending upon the magnitude of his operation. Until 1885, term dealings, which provided for future deliveries in short sales, were not legal on the Paris Bourse. Germany in 1896 attempted to cure speculative evils with a blanket law prohibiting future contracts in industrial and mining—virtually the only securities listings on the Berlin Boerse, which comprehends commodity as well as equity markets—a measure promptly nullified in practice by the New York technic of borrowing stock for delivery. Apologists for speculative markets make the claim that the German legislation delivered the once free Berlin market into the hands of the great banks, establishing an actual "money trust" which supposedly "was a source of weakness to Germany during the war, and is today in the present financial crisis." [6]

New York State forbade short-selling in 1812, annulling the measure in 1858.

Thus, the arguments from usage and precedent in behalf of the short-seller.

What, actually, is the technic of the short sale on the New York Exchange? The short, or bear, sells what he does not own for delivery the next business

[6] "Short Selling" by J. Edward Meeker. New York.

day. The seller borrows, usually from a broker, stock being held for the account of a bull who has posted a margin but not taken delivery of his shares. On European exchanges, short-sellers use the term method, i.e., they gamble with a bull that prices will drop in the interval between the negotiation of the trade and its consummation.

Therein lies the technical weakness of the New York Stock Exchange's defense. Critics of short-selling attack it on two grounds, both growing out of the peculiar New York practice. In the first place, they say, the selling of borrowed stock creates a fictitious supply in the market, increasing the capitalization of a corporation by "ghost" shares. As an example, suppose the Arctic Seal Harpoon Company has 100,000 shares of common, all included in the floating, or purchasable, supply. The entire issue, we shall say, is held by margin-buyers. Constructively, a bear raid results in the sale of 100,000 shares of Harpoon, the shares being borrowed for delivery from the brokers holding them for the long interest. We have then an anomalous condition wherein 200,000 shares of Harpoon, double the issue, have become the property of traders. That, say hostile economists, sets aside the law of supply and demand and destroys reality in the market. There is, they say, a double demand and only the one supply to meet it.

The second objection hinges, technically, on the first. It urges that when a broker lends shares held on margin to a bear he is in effect arming the bear with a weapon to be used in depressing the price against the interest of his customer, the margin trader. Since the Stock Exchange, on April 1, put into force a rule re-

quiring specific written assent from a margin-buyer before his stock can be loaned, the second objection is rendered academic.

Remains the question whether unrestrained short-selling affects the public interest; whether the jitters suffered by the business community are due to an unreasonably depressed, or a market fairly accurately reflecting general conditions.

Have the bears, trading for the decline at every sign of weakening, putting pressure on pivotal stocks in the hope they will thereby force liquidation, hammering, hammering away at the market, demoralized the country's business through communicable fear? Has short-selling wrecked confidence in early recovery and helped to prolong the desperate straits in which this country finds itself, with millions unemployed, millions more on the thin line between sustenance and want, enterprise halted and the national energies lying under a pall of apprehension? No doubt the daily stock tables, telling their dreary tale, affect the nerves of business men, bankers, investors, adversely. But can that be helped under a "free" market? Would they prefer a market pegged at an artificial and consoling level?

The answer is not easy. Statistics put no estimate on the share of bear raiding in the decline, as against forced or prudent liquidation. And a study of Stock Exchange prices does not furnish a cue. On April 2, the "New York Times'" index of fifty leading stocks broke through the "triple bottom" made by lows of December 17, 1931, and January 5 and February 10, 1932, to stand at 61.76. The low for the "Times" index in the 1921 readjustment was 58.25 on June 21.

The figures seem, upon bare reading, to spell a dire tale. Yet, commodity prices have sunk even lower during the Great Disillusionment. Grain prices long ago declined to points below the most grievous times in the depression of the 1870's. July wheat was quoted in November, 1929, at $1.39; in November, 1930, at 61; in April, 1932, at 56 cents a bushel at Chicago. Clothing, foodstuffs—almost every item on the householders' budget excepting rent and public utility services—are advertised as being level with or lower than prices prevailing before the World War. Raw cotton is down even with the starvation price of 1898. Copper rests on an all-time low. Wages outside strongly-unionized crafts have fallen away gradually to pre-War standards, as any stenographer, clerk, unskilled worker or farm hand discovers when he tries to get a new job.

Using another yardstick, a chart compiled in the first week of April, 1932, showed that, whereas commodity indices had declined seventy-five per cent since 1925-'26, Stock Exchange prices, corrected to allow for the split-share inflation, were off only forty per cent. The years 1925-'26 were chosen for comparison because Stock Market levels were assumed to balance then with commodity prices more responsively than in any other recent period.

The bears, manifestly, for all their wickedness had been unable to drive Stock Exchange prices to a parity with commodity values. What an experienced Wall Street commentator terms the "long pull optimism" of the American people, presumably, has stood in the path of the bears; the widely-held opinion that "the United States can't go plumb to hell." Perhaps Stock Exchange prices required, in April, 1932, further liquidation,

along with Governmental expenses, taxes and certain union wages, to "get in line" with current levels. Stock Exchange prices, in spite of bear raids, short-selling and the 1928-'29 inflation of corporate issues, still were at that time somewhere within striking distance of values during the New Jerusalem. Commodities harked back to a period of substantially lower prices.

Concerning the ethics, or economic utility, of short-selling in normal times, the critics say little. Virtually all of them accept the principle of a free market where, conventionally, a buyer opposes a seller face to face, matching judgment about price trends, with the shrewdest trader winning.

That theory presupposes the contestants are equally matched, that they are equipped with knowledge similarly as are the members of a contract bridge club—all of whom are assumed to know the rules and the technic of play although all are not equally gifted. Short-selling may be an exciting diversion in a Stock Exchange conducted as a sporting club and most apologists for Stock Exchange practice talk as if they were justifying pastimes indulged in behind walls from which the public's money is excluded.

But the clever art of short-selling—indeed the less subtle, but often more socially destructive game of margin-buying—becomes suspect on broader grounds than the psychological effect in a period of grave economic distress.

Were the stock exchanges organized merely to afford a bona fide market for equities in the country's enterprises, devices rendering gambling easier promptly would be thrown out. That goes for short-selling, for

margin-buying, for floor trading by brokers, for inspection of open specialists' books.

The crusade against short-selling seems superficial and ex parte.

If American business wishes a wide-open, speculative market, capable of the monstrous bull hysteria of 1926-'29 and the exaggeratedly gloomy bear liquidation of 1932, it doubtless will have just that. The notion that a free market may be operated with only optimists as traders seems, on the face, ridiculous. A free market presupposes a balance of opinion, as between optimist and pessimist, bull and bear.

If, however, American business, after its recent melodramatic experiences, prefers a scientifically-organized market-place, a sane meeting ground of economic tendencies uninfluenced by the skilful manipulations of bull pools and bear raiders, then it will press for rigid curtailment of marginal buying and short-selling, alike, and demand some sort of rational control over what has been shown to be an engine of infinite destructiveness.

XVI—RECOVERY: WAR OR FAMINE?

"The world grows each week a little madder." —*The New Statesman and Nation* (London), April 2, 1932.

"Really, one would suppose that we were witnessing opera bouffe . . . instead of facing the stern realities of a world that deludes itself into thinking it is practical."—DR. NICHOLAS MURRAY BUTLER, April 15, 1932.

"Someone has observed, with subtle intent, that this is Lewis Carroll year. At any rate Alice could not have been more thoroughly flabbergasted by the trend of events in Wonderland than are virtually all of us by the quite incredible explosions which have destroyed once boasted normalcy." —*The Commonweal,* New York, April 20, 1932.

THE increased warmth of the sun and the usual green paraphernalia of Springtime, nature not having taken note of the depression, coupled with the pleasurably undiminished prowess of the timeless Babe Ruth, reassured Mr. Jones somewhat in the second quarter of the year of dubious Grace, 1932. But as Mr. Jones—the "Jones, he pays the freight" of our fathers' self-identifying quip, the "forgotten man" of William Sumners's salty essay—looked elsewhere about his world he suspected, in some agitation, that it was a trace more cockeyed than he had heretofore surmised.

Mr. Jones, made a bit giddy, no doubt, by the first daffodil, the first home run, the fresh view from his open

window—and the quickening suspicion that he might lose his job entirely during the Summer doldrums—examined the economic situation for the first time objectively and in the light of newly-awakened reason. He began to conjecture, take note, compare phenomena such as the utterances of the Great of the Land. At first his conjecture dealt with the preposterous nature of the depression.

How long, Mr. Jones asked, would this paradoxical lunacy—a country richer than time, growing poorer, more woebegone and unhappy by the minute, with its leaders expressing flatly contradictory views, largely nonsense—how long would this go on?

From that speculation, Mr. Jones's mind leaped to another. The second startled him. He wondered suddenly if this depression might have no end at all; if good times, measured by New Jerusalem standards, might never return. Could anything be done? Was it beyond human hands to repair the disabled business machine? Mr. Jones turned cold at the implications of this line of questioning. Such thoughts were demoralizing to a man.

No doubt, he observed with some jauntiness, the depression will come to an end one bright day, as others have, in the past. Automatically, without anyone really doing anything about it. He felt comforted.

Mr. Jones's restored sense of confidence satisfied him for the moment. As he looked about, he saw that the doctrine of automatic recovery was served by many evangelists; that it was being preached from the White House rostrum itself, as well as in other tabernacles of the exalted. Had he used his memory, he would have recalled that the identical apostles of the automatic

doctrine had been among the more ardent spokesmen for an earlier faith, i.e., that the depression basically was psychological. In fact, as he listened, he discerned that these gospels were uttering simultaneously from certain of the pulpits. The old and the new; a touching faith that the Lord would provide, coupled with belief in the astonishing discoveries of such mass psychologists as Bruce Barton.

Had Mr. Jones searched the record of past recoveries along this country's checkered economic path, he would at once have discovered that there exists no historical warrant whatever for the doctrine of automatic recovery.

Acts of God, but not miracles, saved the floundering traders for profit—bankers, industrialists, promoters, etc.—from their sins in 1842, 1861, 1879, 1897 and 1915.

Mr. Jones, wrestling with his novel meditations, did, however, discover rather quickly that the doctrine of automatic recovery had been sharply challenged. He read one day a reassertion from President Hoover that the country was about to turn the corner. Bewildered, he read in the same paper where Dr. Nicholas Murray Butler—a "highbrow" pundit he heartily respected, largely owing to Dr. Butler's outspoken opposition to the Eighteenth Amendment—cogently, diametrically had disputed the automatic theory. Mr. Jones studied the conflicting statements as he rode the 8:17 into town.

From the White House:

"President Hoover is convinced that the economic situation in the nation is improving. He believes the problem is largely one of public confidence. . . . Un-

favorable factors in the general situation, in the opinion of Mr. Hoover, have been grossly exaggerated." [1]

From Dr. Butler, addressing the Economic Club of Chicago:

"The notion so often advanced here in the United States that we are simply passing through one more natural period of depression and panic from which we shall recover, as we recovered from others that preceded it, is wholly illusory. These amazing conditions bear no relation whatever, either in origin or in character, to those which we are accustomed to associate with the years 1837, 1857, 1873, 1893 and 1907. Those ingenious persons who are drawing graphs and making tables to show when business will return to normal and when prices will rise, following the precedents of those earlier depressions, are wasting their time. Unless we remove the basic causes of this present depression, there is no assurance of any automatic check to it whatever until there comes about a complete paralysis of all business activity." [2]

Although Dr. Butler's premise that the current depression differs in origin from its predecessors is, we respectfully contend, superficial, his conclusions seem impregnably sound. The President of Columbia University, we may surmise, has been led away from the fundamental cause of business dislocation, i.e., flagrantly unwise use of the country's credit resources, by the dramatic obviousness of stupidities in postwar financing and the deadening influence of war debts and tariff vendettas. Moreover, Dr. Butler, an internationalist, seems peculiarly susceptible to the reasoning

[1] *New York Times,* April 16, 1932.
[2] *Ibid.*

of the oracular British economists—Keynes, Paish, Salter et al—which, while very likely the milk of the Gospel for England, is often poisonous heresy for the United States, considering the vast difference in the economies of the two countries.

Dr. Butler's forthright views alarmed Mr. Jones but they prodded him to a further look about his horizons. Mr. Jones, apart from the new forebodings over the job, had become bitterly conscious of the depression in his own affairs. The $10,000-a-year salary, which he had accepted as his rightful due in the New Era, had shrunk by 19 per cent. On the occasion, of the second cut, the boss showed him a newspaper advertisement which demonstrated plausibly that the cost of living had decreased, taking it by index numbers, all of 28 per cent. But Mr. and Mrs. Jones, after laborious computations in the library of their nice little Colonial in Scarsdale reached the conclusion that the ad had told a giddy lie. The Joneses had found that, although it cost less to feed and clothe the two children and themselves, their fixed charges—the $1,600 a year they paid in interest and mortgage reduction, the installments on the stock Jones had bought from "the Company," (which now was worth less than his original equity) insurance, their club dues, the telephone and other utility bills—remained the same, while taxes, federal and state income, and real estate, had gone up. Mr. Jones also reflected that the railroad had won the right to soak him twenty-five per cent more for the monthly commutation ticket. The Joneses decided that they would have to make the old bus run another year, putting aside the temptation offered by bargains in glitter-

ing new models and resisting, ruefully, an appeal from the White House to "buy a new car."

Mr. Jones, puzzling over the problem of automatic recovery, pursued his quest for signs and portents. He found himself slightly dizzied as he observed the current scene. He scrutinized in the press, these arresting phenomena:

The inelegant wit, Will Rogers, noted, during a visit to Washington that hotels were "jammed to the doors with bankers . . . the first group to go on the dole in America." Rogers referred to the two billion dollar "touch" insolvent banks and railroads had made on the Treasury through the Reconstruction Finance Corporation. . . . The Commissioner of Welfare in New York City warned the Mayor that 828,000 waifs of the New Era presently would be deprived, as funds ran out, of the cold comfort of municipal and private "doles." . . . A survey showed persons actually starving in the metropolis. . . . Meanwhile, veterans of the late war were demanding a $2,400,000,000 lump sum bonus "dole" from a Treasury, which on April 11, was reported confronting a deficit of $2,000,000,000, a sum larger than the whole cost of the Civil War to the North. The veterans proposed that the Government pay them by putting the currency engravers to work. The bankers, reaching gingerly for the classically-forbidden fruit of currency inflation, frowned righteously on the ex-service mens' method of creating more money. They decried the whole enterprise as a "raid on the Treasury." Mr. Jones perceived, as he pondered these things, that there must be more than one way to get extra money into circulation. In his thoughts, he harked back fleetingly to William Jennings Bryan. He also recalled some-

where from the dusty corridors of his mind certain highly moral remarks he had heard with respect to the iniquity of post-war Germany and France when they inflated, or devaluated, their currency. Mr. Jones suspected that the matter of currency inflation, and indeed the whole problem of money, credit, gold standards, etc. was highly technical. He was not so certain as formerly that it was something best left to the charge of the big men down in Wall Street. He puzzled a bit, indeed, over how the big men could push credit or money out into circulation unless profitable transactions were taking place—and wages being paid. In short, he considered the problem of markets.

Mr. Jones read where Mr. Richard Whitney, president of the New York Stock Exchange, had testified in Washington that an additional one-quarter per cent tax on stock transfers "would freeze our market and make it inactive." He recalled hearing stories that the Stock Exchange might remove to Montreal if the heavier tax were imposed and he remembered also, with some bewilderment, that the leaders in Wall Street had been all but unanimous in favoring a two and one-quarter per cent horizontal tax to the consumer on manufactured articles. Mr. Jones thought about taxes for a space. Stock brokers could threaten to expatriate themselves to avoid an unwelcome tax. The Secretary of the Treasury, Mr. Mills, had told a Senate committee that the income supertaxes levied by the insurgent House would drive the rich into investing all their money in tax-exempt public securities. The proposition was that the rich would thus exercise an option as to whether or not they would pay an income tax. It occurred to Mr. Jones that he had no such alternative. He worked for

his money and he would pay whatever the Government assessed him—or else. . . .

Mr. Jones noticed something else that seemed to him to be odd. The governments, from the mighty sovereignty at Washington down through the states, cities, and counties, were striving desperately to balance their budgets in order to satisfy Wall Street they were good risks for further borrowing. In order to do this, they increased taxes and at the same time dismissed employees, in some cases reducing salaries and wages, and stringently curtailed public works. Mr. Jones couldn't be sure he was right in his deduction, but he wondered if the sensible way for the governments—managing the affairs of all the citizens—to help restore the consuming power and prosperity of the people lay in the direction of adding a great many units to the ranks of the unemployed and at the same time forcing the fortunate ones, who like himself had jobs, to pay twice as much in taxes.

Mr. Jones shared the fervent disapproval of his class for stock market bears. He saw the market skittering downward during the end of March and the early part of April, he saw his equity in "the Company's" shares dwindle to nothingness and he believed with the boss that the $6,000,000,000 squeezed out of the country's corporate structure in that period must be due to malignant bear raiding until he read Mr. Whitney's stout denial before a Senate committee, somewhat inexpert in getting at the true inwardness of the Stock Exchange. His doubts about the social ethics of short-selling were not altogether allayed.

What a whirligig of disingenuous folly!

When Mr. Jones turned from events and their inter-

pretation to the field of opinion, his mind reeled. Here he met a morbid chorus, unrelieved by any whit of the sunshiny optimism of the New Era, from economists, outspoken bankers and dejected members of the intelligentsia. Here he found not only no prescription for recovery, but a very definitely pessimistic expectation that capitalistic society—the way of doing things in the world that Mr. Jones had all his life taken for granted, never doubting its sanctions and scarcely ever thinking of it by name—had gone to the bowwows, was indeed, about to collapse with a thunderous crash. Mr. Jones shuddered and thought of the terrifying illustrations in the Sunday supplements of his youth, showing the earth, stricken by a colossal and evil heavenly body, going up in flames. Especially was Mr. Jones taken aback when he read that Mr. Montagu Norman, Governor of the Bank of England, had prophesied thusly: "Unless decisive steps are taken to save it, the capitalist system will perish throughout the civilized world within one year. I should like to have my prediction put on record for future reference." Mr. Jones turned with cold comfort, from Mr. Norman to Sir Arthur Salter, formerly the principal economist of the League of Nations, who wrote: "There is also a possible hole through to the abyss. For it may be that before recovery comes there will be revolution and social disintegration. If that comes and spreads, we have a world in ruins; with its network of financial obligations in shreds; with the sources of new capital dried up; and with the very basis of law and order, without which none but a primitive society is possible, shattered. Difficult and slow indeed would then be the process of rebuilding."[3] He read

[3] "Recovery, The Second Effort" by Sir Arthur Salter. New York.

also the dour soothsaying of Dr. Wallace Brett Donham, Dean of the School of Business at Harvard University, who envisaged "chaos" and the probability that "science will destroy civilization" unless certain reforms, which he specified, were made effective. "The direction in which we are heading is the way to chaos," wrote Dr. Donham, "chaos resulting from the war, chaos resulting from scientific progress, chaos caused by social changes consequent on improved management and technology at home, chaos caused by the effort to compete advantageously and aggressively in export trade with the other great industrial nations with consequent social readjustments there, chaos ending in the destruction of individual initiative and personal freedom, chaos caused by lack of a plan eventuating from constructive business leadership."[4] By now thoroughly frightened, he shuddered as he read that Sir George Paish had solemnly avowed we were confronted with "world bankruptcy."

Mr. Jones, after a time, gave up reading the alarmist utterances of such prognosticators. Verily, the economists perceived no balm in Gilead.

When Mr. Jones turned to the great business leaders, he derived a certain amount of general reassurance, yet there was nothing actually hopeful that he could put his finger on. A vague but transitory warmth suffused him as he read that Mr. Mellon, taking up his new duties at the Court of St. James's, had explained to the Pilgrims in London that we were passing through a familiar cycle and that, no doubt, when things were righted again, we would find ourselves still in a "new era." Mr. Mellon supposed that our troubles were due to the war, in some way. "Those of us who lived

[4] "Business Adrift" by W. B. Donham. New York.

through the crisis of 1873 remember how both Europe and America were affected by conditions following too rapid expansion and industrial development after the War Between the States in my own country and the Franco-Prussian War in Europe. I have lived through several crises since that time and the conclusion I have reached is that they can be traced directly to dislocations due to wars and their aftermaths." [5]

Mr. Jones mildly considered the opinion of Mr. Myron C. Taylor, the steel master, that the bad times were due to exorbitant taxation. But he couldn't swallow the remedy suggested in good faith by Mr. Henry Ford, the automobile king; which was that people should grow more of their own food stuffs. Although he had the New York point of view, Mr. Jones was born and raised in Nebraska and he didn't understand precisely how the farmers would be relieved of their poverty sufficiently to buy Ford motor cars if all the suburbanites, small town dwellers and villagers were to start backyard vegetable patches.

The perplexed Mr. Jones derived no solace whatever from the intellectuals, who had eagerly and unanimously turned pessimistic when the first factory gates were boarded up. They had scattered to left and to right. Such as did not follow Mr. Theodore Dreiser and Mr. Edmund Wilson to Moscow, had become enamored of a scheme, known as the planned control of industry, which seemed bent only in the direction of state capitalism. It seemed academic to Mr. Jones.

In any event, those were future nostrums, falling in the field of preventive rather than restorative therapy. The remedies offered by the intellectuals, once they

[5] *New York Times,* April 15, 1932.

had passed the stage where vast public works ceased to promise a sure pallative, were singularly dry, or else too revolutionary for Mr. Jones, who was no bolshevik.

The American Communists, humorless fanatics, repelled Mr. Jones with jabbering riots in Union Square and their ineffectual hunger march on Washington. "A regiment of marines," thought Mr. Jones with immoderate vehemence, "could drive the whole outfit into the bay." Although Mr. Jones wouldn't confess it, he had, once or twice recently, entertained a guilty thought about Russia. Maybe things weren't as bad over there as the papers said. Once (that was the second night after his last salary cut) he had got a little outrageous in the locker room at the club. They had had several drinks out of a bottle of Scotch and some of the boys were razzing him good-naturedly about the cut. "Yeah," said Mr. Jones, a bit jingled and pretty sore at "the Company," "if they keep this kind of thing up a lot of us may turn Red." The boys laughed it off. His neighbor followed him out to the car. "Jones," said the neighbor, "a fellow with a wife and children and his own home and a good job shouldn't be saying things like that. People mightn't understand that you were only kidding." "I guess you're right," Mr. Jones replied.

The habit of the yes-man fitted Mr. Jones closely. He could not forebear longing hazily for a return of the good old days.

Wherever Mr. Jones turned along the low-lying horizon, now that he was looking about for himself, he found only disaster. Yet somewhere, he thought, the sun must be shining. He always came back to that; it was a part of his underlying philosophy. It would be against Mr. Jones' racial creed to admit that things

were as bad as they seemed. Lacking other consolation, he found himself forced to turn back, at the end of his quest in the mad springtime of 1932, to faith—an irrational, no doubt a gallant, trustfulness. The blind belief that his country—God's country—was fundamentally sound.

"This country," Mr. Jones would say at the table where he lunched with men from the office, "is the richest in the world. It's down now, but I guess things are about as black as they can get. The big fellows downtown won't let things get much worse.

"Anyway," Mr. Jones would say, "the country simply can't go plumb to hell." But in his heart, he quaked.

Mr. Jones merely expressed what Mr. Hoover told the newspaper correspondents in Washington and what Mr. Mellon, in his way, assured the Pilgrims in London, namely, that the country, (and capitalistic civilization) would be bound to pull through this depression, as it had in the past, chiefly for the not very convincing reason that it always had in the past.

What, in detail, about the doctrine of automatic recovery? It implies that there is a saving element in capitalism which works through inscrutable agencies to redeem society periodically from the wilful economic sins which have laid it low. Everywhere, in the Spring of 1932—and indeed for a year before—one heard this blithe theory expressed. For a time, the publicity and advertising experts contrived to "sell" the people the

theorem that this was not the worst of our historic depressions and that, as we had pulled out of the others, we should pull out of this. All of which stemmed from the doctrine—so satisfying to the masters of capitalistic enterprise—of the business cycle. According to that doctrine, modern society is the prey of an occult, wicked force which at intervals steps in unaccountably to wreck the economic complexus and bring ruin upon an innocent population.

What warrant exists for the cheery faith of Mr. Hoover, Mr. Mellon and Mr. Jones?

Viewed historically, as we have discovered in this book, none whatever.

The haphazard organism of capitalistic enterprise, centered in Wall Street, invariably, does away with the goose that lays its golden eggs. Periodically, the profitable bird lies dismayingly spent and stiff in Wall Street's dooryard. Periodically—in 1837, 1857, 1873, 1893, 1907 and 1929—the "ruggedly individualistic," unsystematized economic order abruptly has ceased to function. The golden eggs of profit were withheld. We have examined the six major breakdowns. Others, including a Cabinet member, tot up fifteen derangements of the country's economic structure since our beginnings a century and a half ago.

By any count we are reasonably and drearily familiar with the phenomenon. Six times let us say, since the trader for profit—spurned, interdicted and cuffed about by any passing squire or abbot a scant three centuries before—set himself up in Wall Street as the ascendant element in American life, the country has been summarily prostrated. Upon five occasions, the country, with the help of wars at home and abroad, of

adverse growing weather in Europe, and, as in the 1840's, with a deluge of investors' gold from England, has struggled back to a normal degree of prosperity.

War, famine, or foreign gold! Those, plus the underlying and God-given fact of an ever-present frontier, boundless deposits of mineral wealth, lush grain, cotton, and grazing land, pulled us out of the pits which greedy, inept and corrupt business enterprise dug for us.

Historically, the capitalistic organism does not carry within itself regenerative power. The financial machine may be wrecked, as it seems inevitably to be whenever the productive power of the country piles up surpluses to be misappropriated through overspeculativeness, credit inflation and unwise multiplication of debt, but the wreckers are traditionally as helpless to repair it as any non-mechanical elderly gentleman whose motor car's connecting rod suddenly gives way on a country road.

The story of this country's recovery from past crises, as we have traced it, discloses alike Wall Street's ineffectuality and the highly accidental character of the factors to which our ancestors and our fathers owed their recovery. The pious are welcome to ascribe these restorations to the intervention of Providence. As a people, we have never been less backward than the ancient Israelites in claiming the special patronage of God. Let us briefly review our periodic revivals:

In 1837, as we recall, the prodigious speculative fervors of bewigged gentlemen, merchants, bankers, stock brokers, landed gentry and the better-off lawyers and clergy, expressed in railroad, canal and land transactions, exhausted Wall Street's store of credit.

The bubble burst and for years—until after 1842—Wall Street relapsed into a drowsy, if respectable, lethargy.

Victoria, 17 and shy, ascended the throne in 1837, acquiring a kingdom that had waxed fat since the Napoleonic wars on the first fruits of the Industrial Revolution. An intimate relationship exists between the recovery of the fledgling States from the panic of '37, their first under the rising plutocracy inspired and implemented by Alexander Hamilton, and the astounding augmentation of income in the motherland. In the 1820's, and into the 1830's, the English exchequer refunded large sums in Consols—government bonds, standard investments at five per cent—at four per cent. His income reduced by twenty per cent, many an Englishman of adventurous turn converted his Consols into sovereigns and looked about for more profitable returns. The new marvel, the railroad, at home and abroad, fulfilled his desire. By the 1840's, the English, who, at first, resisted the Iron Horse as defacing the scenery and unduly altering their manner of living, had become infatuated with railroad shares. A bull market resulted, not the least lively portion of which was the section devoted to "Yankee rails." Capital, in the scores of millions, became available to every backwoods railroad promoter who went to the trouble of acquiring a charter and land grants, having bonds engraved and taking packet for London. The consequent flood of capital stimulated railway building in this country, furnished work for thousands, put iron mills, lumber mills and coal mines to work.

Subsequently, during most of the Nineteenth Century, the ever-increasing tide of English gold excessively

promoted our rail expansion. The railroads called for immigrants, as laborers or settlers, the advancing population created a wider home market for industrial and agricultural goods. We strode recklessly across the Continent. How differently the development of Nineteenth Century America might have unfolded if England, instead of basking uninterruptedly at peace, had been forced to use her monumental gains from the industrial revolution in foreign wars! England, in fact, after losing political control over her choicest colonies in the Eighteenth Century, exercised for more than 100 years afterward an economic control which, by dangerously forcing industrial expansion, raised up her most powerful Twentieth Century rival and saddled the old American stock with troublesome political and cultural problems that have served to abrade the relationships between the English-speaking powers.

Ideas and inventive mechanics steadily migrated from England, first home of the Industrial Revolution, to this country. By 1857, mass production had set in. The discovery of gold in Sutter's agrarian kingdom along the Sacramento filled Wall Street's treasure chests and spurred industrial production for the new, richly-endowed consuming centers beyond the Rockies. Wall Street and the country speculated giddily, and in 1857, the Western Blizzard blew the Street clean of money, of credit, of faith, etc. Times were bad until the outbreak of the War between the States performed the customary, momentary economic magic. Factories worked night and day to supply the Union armies with guns, powder, shoes, uniforms, tents, wagons and the other essentials of warfare. Agriculture thrived, grain surpluses created by the McCormick reaper and rail

transportation brought gold from Europe. The North prospered amazingly during the War. That was Recovery Number Two.

In spite of the savagely remorseless freebooting of Van Derbilt, Drew and lesser pirates, the credit machine sustained by the country's war-induced productivity could not be thrown out of kilter until 1873. Then, the burgeoning house of Morgan and Drexel detected signs that Jay Cooke, diaconal financier of the Union cause, had overextended himself in his fabulous promotion of the Northern Pacific; currency was unsound, the bankers generally had been gambling in railroad shares; speculation had drained off the country's surplus. The structure fell with a shattering thud. Six years of deep distress ensued, with thousands of commercial and bank failures; with wandering bands of track-laying foreign "navvies," discharged in the wilderness by railroad builders, frightening housewives in sod huts on the frontier; with incomputable misery for the poor in the cities.

Economic peace came by accident. In 1879, England had winter all summer. The Archbishop of Canterbury ordered prayers for sunshine. Londoners wore greatcoats throughout July. The wheat crop failed in England and on the Continent; cold rains flooded the Danube basin. December weather chilled the peasants in June. The facilities of the new western railroads were taxed to haul a bumper wheat crop to the seaboard; Europe paid a stiff price; the six-year flow of gold eastward was halted and bullion began to pile up in the Wall Street sub-treasury. This restoration is called, and mistakenly, as Mr. Noyes demonstrates in "Forty Years of American Finance," the Resumption

Recovery. Gold had been reinstalled back of greenbacks on January 1, 1879, but prices continued to fall. The Republican party managers meditated a re-inflation—a move anticipatory and somewhat suggestive of proposals current in Wall Street and Washington in 1932—in preparation for the Presidential campaign of 1880. They received the wondrous tidings of bad growing weather from abroad in time to call off their project. The news was taken as further evidence of God's fatherly watch over the party of Lincoln.

The recovery in 1897 followed identical lines. The country had been saved from Mr. Bryan—an economic heretic of the day, whose dogmas on currency inflation and Government ownership of railways have undergone a purification and now rally formidable support—just before election day in 1896 by a providential doubling of the price of wheat due to a European shortage. Western grain-growers, recaptured by this manifestation of divine bounty on behalf of their true spouse, the Republican party, obligingly dumped Bryan for William McKinley. The hard luck of the European peasants spread over the years 1897 to 1900. Meanwhile, the most grievously unhappy period the American people were called upon to go through until the 1930's, had been relieved; the farmers and the railroads were prospering. Railroads, recently bankrupt, bought millions of tons of steel. The steel masters acquired enormous profits and the first J. Pierpont Morgan was able to fabricate the Steel Trust, largely because of the whimsical intervention of the deity controlling the weather in favor of the American wheat farmer.

We come to the disastrous panic of 1907, brought on by the really remarkable greed of big business pro-

moters, Morgan, Harriman, the so-called last of the Titans, and their colleagues. The country did not, as every middle-aged American knows, recover from that convulsive dislocation until the Allies began, in 1915, to supplement their industrial plant with our own. So much for the past.

Mr. Jones should know about the lamentable impotence of the dominant trader for profit—whether industrialist or the banker who came to supplant the industrialist with the rise of the trusts in the beginning of this century—to undo the wrongs he visits upon the economic order. Mr. Jones will not learn of it in the conventionalized economics textbook. Nor will he hear of it from the savants of Wall Street. The periodical breakdown of business enterprise, according to the hackneyed doctrines which pass current among traders for profit, are laid at the door of the semi-mythical business cycle, mysterious and foreboding, which is likely to descend upon an honest, well-meaning community of traders at any moment and out of clear skies. We maintain, in this book, that the business cycle is not mysterious. Baldly, and at the risk of oversimplification, it is asserted that we are brought to the end of a productive period of prosperity invariably when the master traders for profit, enthroned in Wall Street, abuse the credit system of which they know so little; abstract too large a share of the nation's productive income, waste it in speculation, foolish foreign enterprises (as during the New Jerusalem) and, finally, overload the industry and thrift of the land with an intolerable burden of debt.

Historically, the most burdensome fraction of the debt finally is "scaled down"; an act of God, such as

war or prospective famine abroad, intervenes and the industrial order is set going again on a career of prosperity which is mathematically certain to be brought to a demoralizing conclusion as soon as the ineptitude, eclecticism and greed of Wall Street, sometimes fed by the acquisitiveness of the public, can bring it to pass.

The business cycle, as we have observed it, readily translates itself into a vicious circle of inexact, hit-or-miss capitalistic finance.

These conclusions, it is true, are based on lessons learned during the old, pre-war dispensation when this country, rapidly overrunning the continent, (perhaps too rapidly) still was a debtor nation; before we became suddenly rich out of war-time profiteering, found ourselves overnight in the strange rôle of a creditor and thereupon entered upon our saddening experience as a foreign lender. However, the appeal of the hopeful gentlemen who assure Mr. Jones that we will certainly emerge from this depression because we always have done so in the past, likewise is to the experience of the old dispensation.

Burrowing beneath the surface, beneath the doleful prophecies of the economists and the slightly bizarre developments in Wall Street and Washington in early 1932, what factors would Mr. Jones find pointing toward a renewal of the good old times? Very few.

He would find, for one thing, a Wall Street bereft of imaginative leadership—almost utterly lacking in the forceful individuality which made the wickedness of the past deplorably fascinating—painfully afraid of default on private loans abroad; bent upon persuading our government to remit the public wartime loans; toying with the idea that credit inflation may

turn the trick, disregardful of the plain fact that the country is surfeited with credit, needs no further expansion of its industrial plant and requires nothing save consumers' markets.

Markets—nothing else will serve. What the wars, threatened famines and gold influx noted in the foregoing provided was new markets. Markets must be supported by the productive power of the consumer. Which is to say that consumption may only be forced so far by credit.

Therein lies the dilemma to which Wall Street has brought us. Overexpanded in every line of industry, glutted with capital, oppressed by capital charges, overborne by the weight of our own machine productivity in raw goods, the country requires consuming power and the most powerful among our traders for profit, the final refinement of the guild, are able to suggest only—more credit.

Industrially, Mr. Jones would find a darker picture than appears on the surface. Steel, the standard, produced at slightly over 20 per cent of capacity in April 1932. But Steel's sustaining customers—the railroads, the builders and the motor car manufacturers—showed little if any sign of requiring an appreciably larger supply for a long while to come. The railroads, tearing up unproductive track, laying off maintenance of way forces, bought very few tons of steel in the Spring of 1932. With a deplorably large share of the New Era skyscrapers in the hands of first mortgage holders, there seemed no immediate need for structural steel operations. There remain the motor car manufacturers, who engaged in April of 1932, in a sensational scramble for

the diminished buying power of the masses with results that could easily be foretold.

In agriculture, the situation appeared irremediably black. Here was a lost population, victims of machine civilization, beggared, with no apparent hope of an early reentry into world markets on a profitable basis. Governor Franklin D. Roosevelt, in a radio address which Mr. Jones may have heard, strikingly exposed the plight of the farmer and the planter and its effect on national prosperity.

"How much do the shallow thinkers realize," asked the Governor of New York, "that approximately one-half of our population, fifty or sixty million people, earn their living by farming or in small towns where existence immediately depends on farms? They have today lost their purchasing power. Why? They are receiving for farm products less than the cost to them of growing these products. The result of this loss of purchasing power is that many other millions of people engaged in industry in the cities cannot sell industrial products to the farming half of the nation. This brings home to the city worker that his own employment is directly tied up with the farmer's dollar. No nation can long continue half bankrupt. Main Street, Broadway, the mills, the mines, will close if half the buyers are broke."

We are, no doubt, the most inventive people in the western world. But we assuredly are not, as we so often have been told, the most efficient. While we were swallowing the guff of "success" magazines to that effect, we permitted the boll weevil to shorten our cotton staple, thus giving to Egypt and possibly to the cotton empire which Russia is planning to put to the plow,

the advantage in a world market, rapidly declining through style alterations and the ceaseless competition of substitutes. We now have a two-year inventory of raw cotton and the lowest price since 1898.

Likewise, while the farmer, quite properly, resisted a peasant economy and, equally improperly, insisted upon being a minor capitalist, we have seen other countries with cheaper land, taking advantage of the improved machinery we have sold them in abundance, leaping from peasant methods to mass production. Moreover, their happy-go-lucky speculativeness got our farmers into more debt than they can pay. Instead of being in the van of agricultural efficiency and low cost production as we were until the World War, we are very likely at this time somewhere near the rear.

Obviously, we stand at an impasse in industry and agriculture. We can only export in large volume, as we are constantly being reminded by our British cousins, if we are willing to lend the money to pay for our goods. Fearing repudiation, how can we take the risk, even if it is judicious for a nearly self-contained country with an enormous home market to purchase foreign trade in exchange for credit intangibles. A whole new school of economic thought, expressed in varying fashions by Dr. Donham, of Harvard, Mr. Lawrence Dennis, author of "Is Capitalism Doomed?" and the evangelical Mr. Lothrop Stoddard, bluntly denies that forcing foreign trade by means of foreign investment is wholesome for America.

What is our trend? Very likely, unless there is a more equitable distribution of income, toward stabilization, chronically restricted markets. Mr. Jones had better tighten his belt. He may see his standard of

living impaired dishearteningly and permanently. Perhaps he can't afford to send his daughter to college. Perhaps he shan't be able to buy a place in the country; or, heresy of heresies, keep a car. One of the seemingly most flagrant idiocies of the time has been the advice coming from the seats of the elders to save, and work harder. Our employers, or customers, or clients or the corporations from which we receive our dividends, apparently have seen to the saving end of it. Gigantic overproduction and unemployment would seem to make an injunction to work harder, and produce more, nugatory. Yet in the realistic new era, of which we may now be seeing the first faint outlines, perhaps Mr. Jones' salvation will lie in putting aside what he can squeeze out and working harder to hold his job under a retrenched, stabilized and economically barbaric order. World prices, after all, did recede constantly from the end of the Napoleonic Wars until halted by the Sacramento gold strike. England alone among the countries actually prospered during that long generation.

Perhaps we are, in truth, undergoing the most significant economic revolution since steam power transformed the face of the earth. Lacking a convenient war, or the threat of famine over wide areas, or the fictively remote possibility of an influx of foreign gold further to develop our continent, the American people may find themselves far too numerous, and hence, compelled to undergo a vast reformation in ideas and social structure within the next few years. Perhaps we in reality are on the road to state capitalism, through democratic processes, or a dictatorship. Nothing in the democratic tradition, or the fundamental law would

estop the sovereign people exercising close control over vital industries or high finance if they can be shown to be "infected with the public interest" sufficiently; and functioning anti-socially.

This speculation is predicated, naturally, on the belief, so firmly held by our leaders that the American people are docile, completely indoctrinated in capitalism and the theory of individual enterprise, and, hence, anaesthetized against beguilements from Russia.

XVII—1947 A.D.

IN 1947—accounted by patriots the eleventh year of the second American Revolution—Wall Street, during an expansive, disorderly century the capital of finance, had been utterly transformed.

Placed under a firm social curb by the Revolutionary government, which assumed power in 1937, the financial machine, bankers, Stock Exchange, insurance corporations and the gamut of credit agencies, functioned systematically, with scientific detachment and a genuine bent toward the common good. This marked a radical departure from the pre-revolutionary Wall Street, romantic, picaresque, and as periodically harmful as a western tornado.

Wall Street, if one takes the term to embrace the southerly tongue of Manhattan Island, again had become, as in 1790, the dwelling place of smart New Yorkers. A circle had been rounded. In 1790, Alexander Hamilton, father of American plutocracy, through his sordid debt-funding arrangements launched the trader for profit—a guild suspect for centuries on the score of excessive self-interest—along the road to ascendancy, thereby inordinately bedevilling the culture, art, folkways, politics and humanitarianism of the people. But by 1947, the trader for profit, Hamilton's superior caste, no longer held the high seat. Wall Street, bent to the social will, functioned routinely as a market-place for capital, which is merely one of the

five required ingredients in production. Mighty masters of capital no longer lorded it in Wall Street; the imaginative, who had preempted the tall towers no longer needed by business for residences, promenaded there instead.

The second Revolution—held by publicists to be the first genuinely effective translation into action of the democratic ideal—had been accomplished with no bloodshed whatsoever. For a century, at every sign of restiveness on the part of the oppressed the owners of the country had advised them to seek redress at the ballot box, well knowing that as long as the shimmering magic of easy money to be won from a new continent blinded the eyes a perfidious self-interest would persuade the common man to vote the same ticket as his master. Democracy, an effective technic for registering the public will, served thus, during the century of exploitation, to support the privileged trader for profit. But in 1936, a people wholly disillusioned by the collapse of a familiar order, their minds stimulated to rational thinking as their belts were drawn tighter, used the familiar method to express their profound disgust with old, haphazard ways.

A revolutionary party, committed to the delightfully sane theory that the country belonged to the producer and not the manipulator, easily and victoriously remodeled the entire cast of public thought. The people arose—as they could, holding the sovereign power, have done at any time—and voted out an inadequate, perversive order. By ballot, they dismissed the ruinous masters of capitalistic enterprise. The charge was, flatly, incompetence. It was a good-humored revolution. Whereas the French peasants and petit

bourgeoisie arose against a venal, corrupt nobility and court with pitchforks and muskets; whereas Russia's Bolsheviki destroyed a feudal establishment by violence, the Americans, addicted to the dogma of private ownership, indoctrinated in the democratic gospel, peaceably asserted their rights, in the fourth decade of the Twentieth Century, to correct fundamental wrongs. They started from the premise that an archaic financial system laid too heavy a penalty on them all. Reasoning from that, they determined that society, having the power, should moderate the abuses of unrestrained capitalistic enterprise. Having established a logical case, they proceeded imaginatively to construct a whole new body of opinion which led to a generous, just and humane economic control—the first in historic times.

Social critics termed it the Revolution of Good Sense. More, it was a spiritual revolt. It would not have succeeded without the integrating impetus of an ideal. The old order, corrupt and vicious, was devoid of ideals. The new, apart from being advisable for the majority on the practical side, bore the sanction of all the elevated redeemers and philosophers. It represented enlightened pragmation.

The ultimate extension and channeling of the bitter revolt of the early 1930's against Wall Street and finance generally, into a broad-gauged social adventure, is one of the marvels of human intelligence. How a majority of the American people, proverbially anaesthetic to general ideas, stubborn, and scorned by the intelligentsia as stupid, could have been impressed simultaneously and dynamically with the identical truths, is inexplicable except on the ground of a communicable folk intuition. The quality of leadership

did not account adequately for the metamorphosis of the mass mind, although a satisfactory body of stump speakers, debaters, essayists and, that lowest form of the hortatory species, slogan makers, were evoked and placed in service. The Revolution, satisfactorily enough, provided no overwhelming personal triumph.

What did triumph, seemingly, was the scientific attitude. Applying the new enlightenment, the people cumulatively readjusted their thinking. They discarded old concepts, old fetiches, old admirations, old standards, shedding them with the automatic ease of a snake shaking loose from his skins in the springtime. The myths upon which they had been nurtured, that any boy may grow up to be President; that every man, regardless of his aptitudes, might get rich provided he had the "breaks," went by the boards. Presently an articulate generation of free skeptics asked, heretically: what of it? Who especially wants to be President unless he is qualified and politics is his career; Or get rich? The imperatives of the old order—to save, accumulate money against old age, invest in a young enterprise and wind up wealthy—seemed insincere. Fear, it was perceived, had been the basis for much of this orthodoxy; fear of an indigent old age, personal misfortune, of lack of standing in the community. The revolutionary generation had come through a period of desperate want and straight thinking to a novel self-reliance similar to the bold hardihood of their pioneer ancestors. Fear, excessive scrambling for money, the emphasis on possessions as insignia of worth, appeared to this generation to have, for a century, generated meanness instead of virtue.

A sublime sanity descended in the mid-1930's upon a population not too well nourished, deprived of the iridescent notions of making a million over night, facing the realities of procuring food and shelter anew with each sun-up. People commenced, as in any age of want, to question, suspect, and undervalue the neighbor who lives by his wits. The paradoxical nature of their plight acted as a mental bracer. A former bank clerk, musician, salesman or teacher, working with pick and shovel at a "made" job for a subsistence dole, could reflect ironically that in the granaries of Minneapolis, Chicago and the Middle West lay wheat enough to inundate Central Park.

The tonic laughter of men who again were imitating the gods resounded through the empty halls of capitalistic enterprise before the Sensible Revolution.

By degrees, men returned to first principles. The best thing, they said, is to live a decent, hearty life, without fear or deceit, doing honest work for honest pay, treating employees justly, hiring or lending savings at a reasonable rate of return. Away with theft, by violence or subterfuge; away with elaborate mechanisms by means of which traders make stocks and bonds, equities and mortgages, commercial reputations and commodities, seem something they are not; away with sly, predatory cunning.

What happened during the second Revolution was this:—The people, teased and unsatisfied by programs for controlled production and consumption, etc., the sterile, compromising, charted schemes of intellectuals, determined to take advantage of these economic nostrums in a broader way, and to establish themselves, the sovereigns, in command of the spirit as well as the

mechanics of life. For a century, they said, the economic machine has been under control of merchants, then industrialists, then bankers. Periodically, they have wrecked it. At no time have they shown skill in repairing the machine. Indeed, the paradoxical nature of unchecked credit economics made smash-ups unavoidable and afforded no technic for recovery. Wall Street ravished the productiveness of the country in prosperous times, draining away surplus income into unneeded capital structure, pyramiding debt, seducing, through the Stock Exchange, the savings of the covetous.

And, when a suffering population called for relief, Wall Street, Midas-like, could offer only more credit.

The Revolution was not in its essence radical, as the more timid financiers, journalists, clergymen and well-cushioned, suburban old ladies cried out. Suggestions that the wealthy be expropriated, except in a mild and socially useful form of super-income taxation, met no general response. The people, insisting upon the right of private ownership and clearly distinguishing between the peculiar requirements of their national culture as differentiated from that of the Asiatic, medieval Russia of the Czars, resisted suggestions that the wealthy be dispossessed. They knew, however, that under common law and the precepts of the democratic principle they had a right to destroy capital: As witness the Emancipation Proclamation and the Eighteenth Amendment.

What the people decreed, in 1936, was a new way of communal life; realistic, modern, scientific. In putting it into effect, they adopted the formula, advocated by liberals as far apart as Mr. Owen Young, Dr. Nicholas Murray Butler and the editors of "The New

Republic," for planned control of production and consumption. The Revolutionary administration established a General Economic Board, which exerted rational influence over finance, vital industries, agriculture and, in general, trade. Disavowing an intent to suppress individual enterprise—that sacred cow of the pre-Revolutionary time—the administration that took power in 1937 proposed as its first dogma that no person or corporation should be able, without penalty, to injure the social good—to promote valueless stocks or bonds, to carry on unwise competition, inject "water" into securities offered the investor, rig or manipulate the stock or commodities markets, in short engage in any of the snide business practices canonized as clever by the old generation.

On the positive side, the General Economic Board had a mandate to pass upon the worth of securities issues, divert capital from dying enterprises into those more profitable or socially preferable, moderate differences between production and consumption, and raise or depress wage levels in order to prevent a disproportionate flow of the national income into confined reservoirs, which in the old time virtually enforced over-speculation and credit inflation; and, finally, to promote useful projects not feasible under an unmodified profit system—such as providing decent housing for poor humans in all the cities, re-foresting the Ohio Basin and other agricultural regions which were denuded of trees by land-hungry pioneers, (with the result that valuable top soil progressively washing into the rivers will turn, unless checked, the Middle States into a desert within a few centuries) locking the Mississippi against flood ravages; putting virginal land everywhere, as was done

in New York State under Governor Franklin D. Roosevelt, into timber reserves; imaginatively developing the woefully undeveloped aviation industry, and electrifying the land by concentrating power stations in the Pennsylvania anthracite and West Virginia bituminous coal belts.

The Revolution did, as was charged by its enemies, establish a huge bureaucracy. It involved an abrupt shift of the instrumentalities of power from a lawless Wall Street to a socially responsible, although by no means infallible, agency of government. The most plausible argument offered by the Bourbons in Wall Street had been this:—How can you trust politicians honestly to manage an intricate credit machine? The people, when instructed, replied in kind: How can we continue to trust business men after the disillusioning experiences in a century of free capitalistic enterprise? Moreover, Wall Street was reminded that politicians represented an older, and, generally speaking, a more honorable, tradition than financiers, stemming as they did from the kingly function rather than the usurer's. And of them it was said, politicians, even the meanest, have some glimmering of the professional point of view. The people came to think that politicians readily could be trusted to guard the new order if removed from the temptation of bribery, either in money or in prestige, at the hands of the business caste. The long and sordid story of legislative corruption by business interests was recalled in answering the stock disparagements of politicians. Critics pointed out that a generation which had seen the aptitudes and skill of scientists, technologists and common workingmen immeasurably

advance had developed as a representative product of big business the "yes man."

Furthermore, the likelihood that such a bureaucracy would be assailed by bribery had been foreseen. A first move of the Congress meeting in 1937 was to enact a new penal code. Under its provisions, adopted uniformly by the States, only one high crime remained, treason. Capital punishment, unanimously, was done away with, and transportation adopted in its place. Bribers or bribe takers, it solemnly was ordained, were the supreme enemies of society. Short shrift for them. The Government bought by outright purchase an island in the Philippines, (the Archipelago having been set free) a scurvy, sun-baked islet of lava formation, incapable of supporting any human resident in comfort. Bribers and bribe-takers were to be sentenced to that island irredeemably for the rest of their natural lives. None of the amenities so fondly treasured in the 1930's, the motion picture, the radio, etc., were to be landed on the island. Under a burning tropical sun, the socially iniquitous banker who bribed, or the corrupted politician or expert who accepted, expiated his social sins. Inasmuch as wealthy traders, politicians and members of the intelligentsia notoriously are mindful of their ease and dignity, few dared that sultry hazard.

Getting down to details, Wall Street existed under the rigid control of a committee of commisars, rationalists who regarded finance as a means of diverting a useful social product into correct channels instead of as a romantic adventure. The Stock Exchange functioned, actually, instead of by a shoddy pretense, as a true index of economic conditions and as a genuinely free market. Margin buying, short-selling, were abol-

ished. Likewise, face-to-face floor trading. The broker of 1947 could not chisel "in and out." Other measures were taken to restrict gambling in the values and aspirations of the continent. But a more effectual reform, or series of reforms, operated against over-speculativeness. The General Economic Board, by its elastic control of profits and wages, constantly stood guard against the excessive flood of income into the hands of the rich who, in the old bad days, had no alternative but to use their gains in further investment. Investable capital was, roughly, thus held within the bounds of the national interest. Economic forces met without hindrance on the floor of the stock exchange. The stock brokers, regarded during the New Jerusalem as gay, monstrous clever fellows, at first resisted the change violently. It diminished the sportive glamour surrounding their occupation. But, as stock market prices fell away in 1932 and 1933 and 1934 to virtual nothingness, as the leaders in Wall Street and Washington ricocheted in panic from one panacea to another, even the most strongly-entrenched brokerage house became impoverished. Lacking money, the brokers therefore lacked power. That was the rule under the old regime.

By 1936, a majority of the brokers and a fair share of bankers were so disheartened by the collapse of the accustomed and profitable structure, that they secretly supported the new order. Which was not surpassing strange, considering that back in 1930 foresighted industrialists, such as Mr. Owen Young and Mr. Gerard Swope, declared for a form of planned control weighted, it is true, in behalf of their class. Bankers no longer were tempted, by tidal waves of investors' money during good times, to manufacture securities regardless of

their true worth; or to force loans upon the venal governors of weak countries. Surplus income could not exist in sufficient volume to repeat the outrageous stock market inflation in the Coolidge New Era. Realism, as well as Utopia, descended on Wall Street.

Wall Street—certainly the most provocatively glittering community in the new world, a fabled thoroughfare whose evolution we have traced from primitive days when it supported a bastion to preserve a timid European colony against the Wilden, through its knavish heyday as a pirates' market-place; its brief span of glory as the first seat of the Republic's government, and its gradual emergence as the citadel of speculative capitalistic enterprise—in 1947 had become, not the most powerful factor in national life, but simply a matter-of-fact place of exchange where investors brought their funds to be exchanged for the honest debt tokens of industry.

Physically, the Street had altered in so many particulars that an exile from the dim 1920's would have recognized few landmarks. For a time after the Revolution, Wall Street took on the aspect of a deserted village as the investment trust entrepeneurs and other roystering lads who lived by their wits, promptly vanished. Under the new order, the legitimate financial houses required only about one-tenth of the floor space occupied during the bonanza days. Whereupon the imaginative among the successful—scientists, scholars, technologists, artists, experts and other socially useful and enlightened folk—perceived that lower Manhattan was by all odds the most attractive residential section in the metropolis. The really smart people never had been quite satisfied with Park Avenue. Essentially a middle

class street, its apartment houses rising in box-like, symmetrical similarity, Park Avenue afforded no beguiling vistas, and there was always a suggestion of suffocation from motor car exhausts in the air. Park Avenue, really, had been only a stopping place between Fifth Avenue and the East River. And when the sophisticates discovered that the graceful towers of lower Manhattan—easily accessible, commanding a magnificent view of the Bay and two rivers, with plenty of salt air—were unpeopled, they took one of the sudden, privileged notions that whimsically have shifted the dwellings of the upper class about Manhattan island since Colonial days. At once, the skyscrapers which had housed the lords of finance during the quaint, inefficient Coolidge New Era, were remodeled, and vast new apartment houses, with ample terraces, arose on both water fronts from Fulton Street south.

The new inhabitants of Wall Street, making use of air and water travel, were in easy communication with estates on Long Island, in New England, upper New York, the Pennsylvania mountains, and the fox hunting country of Maryland and Virginia. Under stimulus of the General Economic Board, flying had become ever so much more common than its most optimistic partisans had believed possible during the 1920's. Ten full blocks, north of John Street and from Broadway east to the river, were appropriated for a gigantic airport and motor car garage. Dock leases held by ocean shipping lines were bought up and the tip of Manhattan ringed with yacht berths. The enormous impulse toward city planning given by the Revolution brought it about that streets were built on varying levels, the bottom for trucks, the second devised for private motor cars and

taxi cabs, and the third for promenades. Open air cafes appeared along Broad and Wall Streets and lower Broadway in the manner once known as Continental. Wall Street resumed its Colonial importance as a center of socially enjoyable activities. Harassed husbands walked Pekes and Borzois at dusk; night life thrived with new spontaneity. People were unaffectedly happy on Wall Street in 1947.

Astonishing as were the changes in Wall Street's function and geography, the sociological effects of the Revolution upon New Yorkers and all Americans were even more impressive.

In the first place, the people had irrevocably broken with the rigorous excitations and compulsions of the old, chaotic, capitalistic metaphysics. During the century in which the trader for profit, his technics enormously accelerated by the industrial revolution and the headlong expansion of credit devices, ruled the land, he had, as is the custom with ascendant castes, devised a state faith. By the year 1929—when the last great structure of ephemeral prosperity brought about by the mysticism of finance, collapsed—the American people as slavishly adhered to the cult of business enterprise, aptly dubbed "rugged individualism" by Mr. Herbert Hoover, the "first business President," as any Thirteenth century Rhenish province to Holy Church. Mr. Lawrence Dennis, one of the St. John Baptists of the Revolution in the early 1930's, phrased it in this wise: "To occupy positions of influence or responsibility in the America of today, a man must have the endorsement of big business, which means that he may not have the soul of a leader. The American people demand this quite as much as business. The nation is as deeply

imbued with the business faith as any people ever was with a state religion. . . . The people will suffer under their business leaders but follow them they must, to the bitter end, for the people have no other leaders. Nor have they any other faith."[1]

But much water flowed past Wall Street out to sea between Mr. Dennis' despairing utterance and the year 1947. The pace of everything connected with life had been speeded up. Sociological reformations which before the wireless age would have taken generations to accomplish became now a matter of years.

The cult of business enterprise had become as dead by the Revolution as belief in the explicit Genesis account of creation in American universities, circa 1929. Here and there, old fogies, lounging about decrepit clubs in uptown Manhattan and the shabby-genteel districts of Boston, Philadelphia or Chicago, sighed over the departed faith. They longed for the good old days when specious bunkum about the sanctity of a man's right to plunder his neighbor went virtually unchallenged. In their mumblings, they attempted to cast a spurious glamour over what the Revolutionary generation regarded as rather cheap skulduggery. They exalted, as was the custom in the old time, the sharp lad who contrived to acquire what his fellow possessed by means fair or foul. They attempted to throw a mantle of romance over the life of a scarcely literate mechanic, who accumulated a billion dollars, ruled many thousands of employees with vapid tyrrany, imposing teetotalism and kitchen gardens, while arbitrarily exercising the right to deprive them of their jobs for long stretches at a time. The unregenerate oldsters exchanged tawdry recollec-

[1] "Is Capitalism Doomed?" by Lawrence Dennis. New York.

tions of how this one, or that one, deceived, defrauded or robbed pool associates, corporations and the public, by methods not only illegal but esteemed as mighty smart before the Revolution.

These tales struck the post-Revolutionary generation as ethically sordid. Cunning and guile no longer were conceived to be admirable. One of the commonest criticisms levelled at the old regime was that capitalistic enterprise had perverted almost everyone's sense of values. How could a system be expected to survive, it was asked, in some bewilderment, which not only doomed eighty per cent of the people to a dreary, insecure way of life, but, on the spiritual side, aggrandized greed, the basest of vices?

Deeds of treachery, of stock market rigging, of pool operations for the rise or fall, revolted a generation which did not consider business adventurous nor believe the acquisition of too much money respectable. The tendency, indeed, in 1947, was to regard the great bankers, who reigned indisputably during the World War and the New Jerusalem period, with the opprobrium the business community visited generally, in the 1920's, on the racketeer.

The Revolution had, as we see, turned topsy-turvy the whole set of values by which Americans lived during the century of modern capitalistic expansion. Men saw business, finance, production, distribution, as necessary utilities, not as sacraments in a perverted state faith, nor as opportunities for selfish exploitation.

We come to the most gratifying result of the Revolution: the American people, from being a fidgety, restless, foot-loose and unhappy race, were lifted into serenity! No longer driven by a nonsensical desire to

get the better of his neighbor, so as to shine in the only department of life rewarded by universal esteem, i.e., business, the American found it unnecessary, inexpedient, indeed, undesirable, to cheat, steal and rob. Lying, except as a social grace, almost vanished from the category of American sins. There were obvious reasons, apart from the general elevation of morals. A man who falsified a corporation statement, or deceived a customer about the value or utility of his goods met swift punishment. By a curious flash of enlightenment, the people, after the Revolution, had been led to revive the milder forms of corporal punishment, realizing, that for a century or more—a period roughly corresponding to the rise of modern capitalistic enterprise—they had been off on the wrong track with respect to the treatment of what was known as crime. All confinement short of life transportation, for social defectives, the Revolutionaries held to be silly, degrading and ineffectual. The stocks were restored as punishment for commercial liars, the ducking stool for scolds, scandalmongers and irrepressible reformers in the field of private conduct; the lash for bullies of either sex, for gangsters, and for blue sky stock salesmen.

In the new era of realistic good-will, sanity and personal truthfulness, crimes of violence against property diminished astonishingly. When it penetrated the skull of adventuresome, undisciplined youths that they did not need to acquire tangible evidences of wealth at the point of a gun in order to compare favorably in the social scheme with bankers, brokers, industrialists, merchants and other conspicuously acquisitive citizens, these youths grew surprisingly amenable to moral suasion. Mostly, they adapted themselves at once

to combative pursuits such as sports or gambling. Upon those, however, who could not shake off addiction to robbery by force, virtually the same social retributions were visited as upon the unregenerated sons of the old time who insisted still upon robbing by subterfuge; that is to say, by attempting to misrepresent the value of corporation securities, or by watering stock or by fostering the illicit cupidity of the weak by offering, in bootleg channels, opportunities for undue profit.

Under the Revolutionary penal code, the unreconstructed investment trust promoter was treated with substantially the same justice as the second-story man, the yegg, the stick-up, the pickpocket or the gangster. The judicial theory seemed to be that all were equally culpable in trying to seize the property of others without working for it.

In America after the second Revolution, work instead of acquisitiveness was ennobled. Having elided, by a simple political transformation from anarchic capitalism to a benevolent form of state capitalism, the excessive and relatively modern feverishness of trader competition, the new founders of the Republic discovered that man showed a normal, healthy desire to put himself in line with the salty wisdom of the ages. Philosophers, from the beginning of time, had assured mankind that the most durable satisfactions in life flow out of honest craftsmanship. In every age, an admirable section of the population had tested that aphorism and found it true. Once freed of the distorted imperatives of the trader hegemony, and assured of security through dignified and ample unemployment, old age and sickness benefits, everyone in America worked—for fun.

With the tranquilizing of the American spirit, the countryside—ravaged, forlorn, pitted by ugly factories, gas tanks, billboards, and at the outskirts of cities, appallingly mean workingmen's settlements—spontaneously bloomed. Men no longer competing for wealth, or driven, from the highest to the lowest, by fear of the future or social ignominy if not prosperous, turned to more wholesome forms of rivalry. Men aspired, as always,—but single-mindedly now—to be the smoothest barber, the most prudent banker, most truthful editor, the best front-yard gardener, the shrewdest tea taster, etc. All occupations were stimulated by hearty, good-humored, informal contests of skill or judgment.

Moreover, the new liberation, brought about a surprising revival of learning for its own sake, in song, in good manners, in the primeval joy of living. Love-making, which never flourished in America as a fine art, largely because the necessity of physically conquering a continent put a premium on the cruder virilities and procreation for its own sake, thrived as the green bay tree. People took to singing and walking contentedly along country roads at night, once a humaner and more thoughtful society put footpaths alongside the motor tracks, and after air transportation mercifully relieved the highways of congestion. People, quieter in their souls, no longer were tortured by an exigent impulse to rapid motion, to wandering aimlessly from this point to that in their motor cars. Being more friendly, more natural, they enjoyed staying in their homes and neighborhood. A folk culture, the absence of which European observers so often had lamented, seemed in process of gestation.

Everyone whose work made it possible, except those

souls who congenitally loved the smell and touch of crowds, dwelt in the country. Air travel—enormously stimulated by a government more interested in developing utilitarian aids to pleasant living than in profits—made commutation possible from long distances. Moreover, a wise decentralization of industry and trade had robbed the cities, horrible congeries of noise, dirt, darkness and confusion in the 1930's, of their power to constrict the human spirit. The shocking tribe of boosters no longer padded census returns and compiled elaborate charts and tables to form the basis of slogans inviting strangers to come and share their discomfort. City boosters, in 1947, noted with pride the dwindling population figures, and proclaimed to the world the laudably proportionate acreage of grass, waterway, playing fields, etc., within their city limits or the fact that every dwelling apartment in their town was bathed in sunlight.

Strolling poets and story tellers, blessed loafers somewhat akin to the wandering friars of the Middle Ages, loitered through the country. They were lodged, fed and made welcome in exchange for exciting tales told farmer, mechanic and tradesman, about the origins, honorable history—and perversion of his craft prior to the time of the glorious Revolution. The farmer's family gathered after supper to hear the ambulant sage relate nature myths, the story of Ceres and Persephone, the immemorial portents of the wheel of the seasons, the folklore significance of the sun, moon, stars, thunder, lightning and rain. For the mechanic, the bards revealed how ancient man ingeniously had devised a lever, then a wheel; had tamed wild horses and oxen as part of the aspiring race's unremitting search for means to

extend human arms and legs, and hence, its power over nature. The aviator, the truck driver, the chauffeur, was informed of how man's fancy invented the allegory of Phoebus and his chariot, the sun, who daily raced across the heavens, returning by night to his starting place on the under-side of the earth. They were told also about the wax-winged Daedalus and Icarus, celebrated by the Greek legends for being the first men to fly.

By these means, and many others, were men made proud of their crafts, new significance given to their jobs and dimensions added to their lives.

The plain people, equipped for the first time with talent and opportunity for joyous living, insensibly became pacifists at heart. The percentage of men who looked upon war as an escape from miserable housing, fretful wives, uncongenial tasks or maladjusted social conditions, diminished. Besides, no other country had anything that the United States would go to war for. By the embargo on export of capital and by restricting foreign commerce to a barter basis, (reforms the so-called "economic realists" contended for vainly under the old dispensation), the Revolutionary government had at one stroke abolished the malign evils of commercial imperialism.

Instant public condemnation would have recoiled upon a President and Congress who sent destroyers and marines to a Latin-American republic as a means of enforcing the claims of a Wall Street bank arising out of a loan which had been forced upon corrupt governors, and by them wasted or peculated. No longer did the selfish, uneconomic aims of Wall Street capitalists coincide with an obtuse patriotism.

The state of armed truce between a communized Europe and the liberalized American Republic made it necessary to maintain a navy and an army. But negotiations were under way, in a spirit of genuine candor, between the Communist International and the American Government, looking to a treaty which would limit the armed forces of each continent to a half dozen attractive, yacht-like craft, (still ironically referred to in the press as men-of-war), which should, each year, engage in maneuvers for points, thus reestablishing the charming uses of the medieval tourney. These maneuvers, it was thought, would vent the nationalistic, or continental, jealousies of the people; and the winning of a majority of the contests involving speed, seamanship, target practice, etc. would satisfy the vanity of whichever continent won the World's Gold Cup Championship for that year. Everyone seemed convinced that a pattern had been found for the long-sought "moral substitute for war."

Americans no longer heard reproachful assertions from their own intelligentsia, and from abroad, that the country had grown old too fast; that its arteries had been hardened prematurely by the terrific struggle to encompass all the wealth of the continent in the hands of the few who could reach power within a century. Social critics no longer regarded it as shameful that we had exploited our natural resources in land, lumber, minerals, so rapidly. The evils of capitalism having largely been absorbed by earlier generations, the post-Revolutionary American rejoiced in the gigantic industrial and transportation plant, the control of which he had taken over from unskilful masters.

The story of the Revolution, which by 1947 had

taken its place as a patriotic classic, illustrating the revival, or rather the first effective working-out of the relatively modern political ideal, democracy, may be briefly detailed. The Revolution came about primarily, as we have seen, as the result of an incomprehensibly swift visitation of plain, ordinary common sense. In an age of faith it would have been hailed as providential, the result of a revelation from on high.

Let us glance hastily at the situation as it existed in 1932. The United States, most handsomely endowed of all nations by Nature, had sunk to a state of economic paralysis and social barbarism. To the astonishment of civilized men everywhere, the heir to the country's most salient hero had been kidnaped—and the aggrieved father appealed to a prosperous, powerful underworld when the law failed him. Kidnaping ordinarily flourishes only in backward, savage lands. A century of get-rich-quick psychology had so stultified the people's moral sense that they lacked judgments to appeal to in the war on crime. The Lindbergh kidnaping was a typically American outrage; the melodramatic climax to a century of mad exploitation.

During the early agitations, big business, its lords, priests and prophets as well as its mercenaries in Washington, resisted as impious and heretical the attacks on the established faith. Martyrs of the new religion metaphorically were burned alive. Wall Street, with the support of the Government, the press, sections of the universities, the American Legion, patriotic societies and the more vociferous of the clergy, carried on a severe inquisition. No ascendant group ever voluntarily surrendered its privileges. No ascendant group

ever fought with greater ingenuity and resourcefulness than the entrenched traders for profit after 1932.

But they faced ineluctably powerful forces against which they could contend but briefly. The pitiless logic of the situation went wholly against them. Supreme masters of the most highly developed, supposedly the most efficient economic order the world ever had seen, they plainly had shown themselves, from about the year 1928 onward, totally incapable of controlling it. And back of it all, seldom rising to the surface, lurked mankind's immemorial mistrust, his universal skepticism, toward traders for profit. A general mistrust of the existing order is the first prerequisite of a revolution.

As the depression grew ever more profound, converts appeared in greater numbers. International bankers lost face as the billions in foreign securities they had huckstered to the American people were defaulted. Europe, South America, could not pay in gold; the Smoot-Hawley tariff prevented their paying in goods; the chary American investor would lend no more money (throwing good money after bad, they called it) to help impoverished governments and foreign cartels pay cumulative interest out of new loans. The industrial geniuses, who towered for a generation, growing all but Olympian during the credit orgy of the New Jerusalem, waited impotently for recovery.

They had no technic for creating markets; only goods and debts. Wall Street experimented frantically, aided by Washington, with expedients calculated to restore prosperity by expanding credit—doubtless on the "hair of the dog that bit you" theory. New markets, not more debt, patently were needed. Anyone could see that; presently people were talking it everywhere.

The wartime loans grudgingly were remitted, Russia recognized, prohibition modified, to no avail. Eventually, driven by despair and the hope of saving "rugged individualism," Wall Street assented to a widely-ballyhooed scheme to revive buying power through public works. But the scope of the project proved inadequate. Whereas, in 1930, perhaps an emergency public works program of $10,000,000,000, coupled with tariff reform and readjustment of the debts owed us by Europe, might have steadied business; by 1935, it would have taken four times that sum. The government had neither the will nor the imagination to abstract through a capital levy—profits having been reduced to a thin, insufficient trickle—that amount, nor even the lesser aggregate of money it poured into the World War; itself, as it appeared in retrospect, a minor calamity, judged by standards of the greatest of all depressions.

Presently, leaders arose boldly to question the "divine right" of big business leaders to govern the extraordinarily complex machine which had come into being, higgledy-piggledy, during a century of modern capitalistic enterprise. Wall Street, they said, borrowing the language of the courts, was "infected with the public interest."

The engine of finance could not safely be trusted in the hands of master mechanics unable to operate it without periodic and deplorable smashups. The people, they asserted, were more important than any constituent caste.

"Rugged individualism" might work with a certain rule-of-thumb effectiveness in a developing world, where land and resources were abundant. It might, not alto-

gether efficiently and certainly with a number of extremely disadvantageous byproducts, bridle a continent with steel. But, at best, it was unconscionably wasteful of men and wealth. And it was a woefully inadequate formula for administering the economy of a stabilizing country.

Moreover—and this was the talk that fetched a community away from its ancestral gods—Wall Street was utterly inefficient. Modern technology and expert management had worked wonders in industry. They were of the Twentieth Century. Wall Street used the methods and technic of the Nineteenth. Ford could turn out thousands of motor cars, with interchangeable parts, on a rolling platform; men and machines constructed buildings that were the marvel of all ages with precision and a minimum of waste—but the functions of supplying capital for these operations were conducted with the same rapturous heedlessness as before Watt, Ampere, Morse, Edison or Selden were born. Furthermore, the financial community persisted in believing that the same economic "laws"—treating them as if they were immutable as the laws of nature—governed its dealings in the 1930's as in the lifetime of Adam Smith, Eighteenth Century apologist for business enterprise.

Revolutions had swept agriculture, industry, commerce itself, but finance stood untouched. The principle of laissez faire—let alone—which inspired the plausible Manchester school of economists and gave rise to a train of social abuses, from the grievous exploitation of labor in England and this country in the early decades of the factory system to the anomalous miseries suffered by the American working and middle

classes after the Coolidge New Era vanished, still was maintained as the pure seed of the spirit in the Wall Street of the 1930's. Wall Street demanded eclecticism, the method of trial and error, for years after industry had gone in for laboratories and measurements accurate to the ten-millionth of an inch; after agriculture had been transformed, (to its temporary hurt), by scientists who increased the yield of grain and the dimensions of food animals and by inventors who displaced ten men and thirty horses by machines.

Management, technology, labor had entered the new discipline of science. No guesswork there. But Wall Street insisted upon remaining outside, and putting the fruit of the inventiveness, thrift and toil of the whole population to the hazard of gamblers and bankers, ready to turn into irresponsible wholesalers of securities. The Stock Exchange—an instrument devised in its beginning to furnish easy marketability for Government debt shares, as we have seen; furnishing, later on, a congenial scene for frankly piratical operations—became more and more a Thieves' Market where promotional bankers might vend the disproportionate loot of new financing, too often wholly "water," as in the manifold examples of socially corrupt, although perfectly legal, railroad and trust financing before the World War and the scandalous stock pyramiding of public utilities and industrial cartels afterward.

Three social, economic services the Stock Exchange's apologists had claimed for it. One, financing new industries, which otherwise would be still-born; Two, furnishing a free market, which would, through its more sensitive reactions to general conditions, supply a useful business index; Three, supplying a liquid market by

means of which holders of securities always could realize—to escape an expected loss, to answer a personal emergency or to effect a transfer of investment.

(In this book, we have seen that the Stock Exchange and Wall Street bankers seldom have sponsored new industry. We think of John D. Rockefeller being turned away, when he came on from Cleveland asking capital, by the president of a Wall Street bank. We recall that Andrew Carnegie had to pay ten, fifteen, twenty per cent for money in Philadelphia and Boston, failing help in Wall Street. The rebuffs sustained by Henry Ford in 1920 are more recent; as likewise, the unwillingness of Wall Street bankers to finance William C. Durant when Ford offered him the Ford Motor Company, for $8,000,000 in 1909. We recalled the true story of how the American railways were built—how land grants from counties, cities and states; public loans, the eager subscription of merchants, farmers, industrialists, gold imported from England, built the vast share of the roads up to 1880 and that, thereafter, through Wall Street financing, the great common carriers were laden with the staggering debts which still enfeebled them in the post-New Era period.)

It was not difficult for Revolutionary spokesmen to persuade the people that Wall Street—bankers and securities markets—had been financed by the railroads and industry, rather than the reverse.

On the second point, the people recalled how ineffective the stock market became during the New Era, and beyond, as a business signboard. Subject to the traditional manipulations of plungers, promoters, big bankers, bear pools and bull consortiums, it came under a new external influence when the Coolidge administra-

tion, guided, no doubt, by the Secretary of the Treasury, stimulated the fateful bull market of 1926-'29 by cheering utterances. After the collapse, Mr. Hoover sought to interfere with the supposedly unhampered duel of economic forces on the Stock Exchange by private admonitions, by public warnings and by a Senatorial inquiry. With the attempt of Governments, in whatever degree successful, artificially to control the course of the market, it palpably lost character as an economic barometer.

One function, the Stock Exchange did fulfill. It remained fluid—excessively so, the middling business and industrial interests thought, during the progressive bear market of 1930, 1931 and 1932. A security holder during those stages of the depression never lacked a ready market for his holdings.

No wonder the traditional, leave alone, Wall Street was abolished as one of the first steps under the Revolution.

It was outmoded, unscientific and horribly wasteful, and its anarchic nature laid too heavy a price in woe upon the land.

So, we bury the bad old past, in fancy, and take the first steps in the hard path which lead, if the past is any guide, toward the third Revolution.

We have traced, sketchily, the beginning of speculative capitalistic enterprise and the rise of securities exchanges. The chronicle is not inspiring. It is rather the reverse. It is as blatant, lusty, savage, as the unredeemed character of man allows. Modern capitalistic enterprise, as we have seen, has failed in stability and in assuring mankind the rational enjoyment of the plen-

tiful fruits of nature, refined by technology. Finance, which in the maturity of industrialism assumed final control of the economic order, stands indicted and convicted of the worst of all modern sins, incompetence. There seems no place in a sensibly devised world for the mystical eclecticism of international bankers and the mischievous, antiquated instrument of chance-taking, the Stock Exchange, as constituted in 1932.

What of the future indeed? One man's guess is as valuable as the next man's. The errors of prophets expire before their fame. But prophesying is one of the choicest pleasures available to man, and surely, in the midst of a despair more acute and articulate than has ever arisen since man began to put his faith in his own ingenuity, it is meet to cast about if haply we may find some gleam of encouragement. There must be some way out, apart from the terrifying alternatives of anti-social, brutal, unintelligent capitalistic enterprise on the one hand, wreaking as it has more genuine hurt than war, and the rigidly regimented, illiberal system which the mentors of Soviet Russia have established to cover their own special problem.

In the light of the bruising, age-old struggle of western European man to achieve whatever degree of personal liberty he enjoys and in the midst of a frightfully oppressive economic bewilderment, should we not seek for some way by means of which the sons of men may truly be liberated?

Have we exhausted the possibilities of democracy? Obviously, we have not!

THE END

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